Creating Shared Value—
Striving to create and share value for society

HITACHI

Reliable solutions

CSR & Financial Report 2015

for all stakeholders

Editorial Policy

From fiscal 2011, we consolidated our Annual Report, which reported our management strategy and financial statements, and our CSR Report, which reported Environment, Social, and Governance (ESG) information, to produce a comprehensive CSR & Financial Report. We did this to provide a clear overall view of the activities of the Hitachi Construction Machinery Group as it aims at the integrated advancement of our growth strategies and CSR management as a corporate group. In this FY 2015 CSR & Financial Report, we have highlighted the areas described below to allow our stakeholders to gain a clearer understanding of the Hitachi Construction Machinery Group's corporate management.

- We made the FY 2015 CSR & Financial Report that consists of four parts—"For Customers," "For Local Communities," "For the Earth," and "For People"—and covers the business activities of the Hitachi Construction Machinery Group, which is working to implement its growth strategy (mid-term management plan) and improve its CSR management in an integrated manner.
- We are working to reinforce its Creating Shared Value (CSV) management, which shares value created through its business activities with the Earth and society (stakeholders). In this FY2015 CSR & Financial Report, we discuss CSV activities at all stages, from the manufacturing stage and use stage to the challenge stage of applying construction machinery to social and environmental issues.
- More detailed information about our activities and other performance data are now available in the Web edition of this report. We are committed to information disclosure that can satisfy the various interests and concerns stakeholders and others may have.

Report period

April 1, 2014 to March 31, 2015
(Some sections include information on or after April 1, 2015.)

Organization coverage

Consolidated companies of the Hitachi Construction Machinery Group

Scope of performance data

Financial reporting: Hitachi Construction Machinery, its consolidated subsidiaries and affiliates accounted for by the equity method

Non-financial Report (Environment): Hitachi Construction Machinery Co., Ltd. and its consolidated subsidiaries

Non-financial Report (Society): Hitachi Construction Machinery Co., Ltd. and some of its consolidated subsidiaries

Guidelines followed in the preparation of this Report

- Sustainability Reporting Guidelines, Version 4.0 (G4.0), Global Reporting Initiative (GRI)
- Environmental Reporting Guidelines (FY 2012 edition), Ministry of the Environment, government of Japan

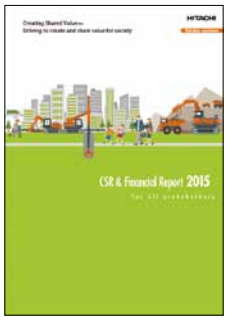
Next issue

Scheduled for August 2016

Information disclosure by the Hitachi Construction Machinery Group

● CSR & Financial Report

Key report providing a comprehensive reporting of the Hitachi Construction Machinery Group's management strategies and financial and non-financial (ESG) information.



● Information for Shareholders and Investors (Website)

http://www.hitachi-c-m.com/global/ir/index.html

This website provides timely updates on the Company's financial information and IR news, as well as information and a wide range of IR materials for individual investors.

● Corporate Social Responsibility (Society, Environment) Report (Website)

http://www.hitachi-c-m.com/global/company/csr/index.html

This website provides cases of activities and performance data not included in the report.

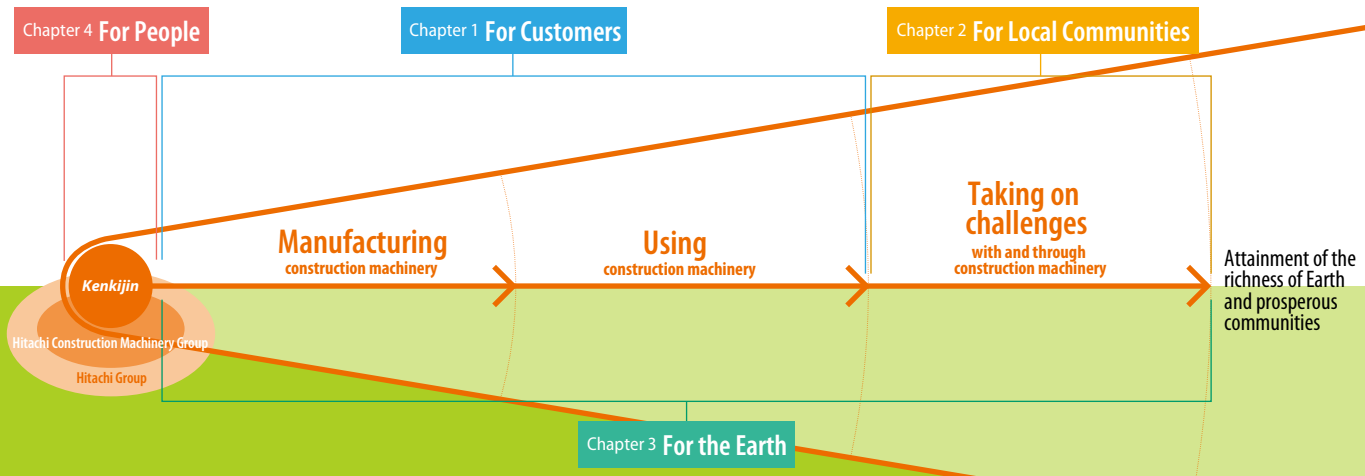
● Environmental Conservation (Website)

http://www.hitachi-c-m.com/global/environment/index.html

This website provides comprehensive reporting on our environmental management systems and environmental performance in a wide range of areas.

*** Forecasts, expectations, plans for the future**

This Report not only provides facts about the Hitachi Construction Machinery Group's past and present but also includes information relating to forecasts, expectations, and plans for the future. This information on future forecasts and plans is necessarily based on assumptions and judgments obtainable at the time of the preparation and edition of the report; hence they include some uncertainty. Accordingly, the risk exists that the results or events of future business activities may be at variance with the contents described in this Report, and the Hitachi Construction Machinery Group assumes no responsibility for such an eventuality. We hope the readers of this report will be cognizant of this point.



CONTENTS

1 Editorial Policy
3 Our Vision
5 Hitachi Construction Machinery Group Profile
7 Message from the President
11 Financial and Non-Financial Highlights

13 **Chapter 1 For Customers**

15 Feature
Mining ICT's potential to reform mining management

17 • Perspective 1 Manufacturing Construction Machinery
• Perspective 2 Using Construction Machinery

27 **Chapter 2 For Local Communities**

29 Feature
Working on projects to help Cambodians open up fertile land

31 **Summary of business conditions for FY2014 by region**
Japan / China / Asia & Oceania / Europe / Russia, CIS, Africa & Middle East / The Americas

37 **Chapter 3 For the Earth**

39 Feature
Creating a construction machinery business that contributes to solutions to environmental problems

41 • Reducing energy use and CO_2 emissions from machinery during operation
• Reducing environmental burden due to business activities

45 **Chapter 4 For People**

47 Feature
Spreading the *Kenkijin* Spirit and developing global human capitals

49 • The right person in the right places globally
• Diversity management and protecting and respecting human rights

53 **Management Structure**
Corporate Governance / Compliance / Risk management / CSR Management

57 Financial Section
Ten-year Financial History / Management's Discussion and Analysis / Consolidated Financial Statements / Notes to Consolidated Financial Statements

102 Corporate Information

"Toward the richness of Earth and prosperous communities in the future..." Hitachi Construction Machinery Group is contributing to the creation of comfortable living spaces.

Using the *Kenkijin* Spirit as a driving force, the Hitachi Construction Machinery Group is working to create new value in order to achieve Our Vision.

Identity

We are active in the evolution of "machinery" and the synergy between "human" and "business" that combines to create rich living spaces, making them more comfortable, highly developed and efficient.

The above statement defines the rationale for our existence as well as our identity in society. Our activities to protect the environment, improve social capital, and enrich our living spaces will continue as long as human society exists. Construction machinery is expected to develop in other directions, going beyond the confines set by the framework of the civil and architectural engineering. We of Hitachi Construction Machinery commit ourselves, with pride and pleasure in our work, to serve our customers and enhance customer satisfaction by making their work more congenial and efficient with improved "Technology" and "Systems".

Innovation

We consistently develop and provide our customers with the technology, products and services that generate new value.

The above statement defines our professional attitude toward our business. It is our belief that a manufacturer's role is to provide the customers with "new values." In order to create such new values, the traditional approach of improving and upgrading a company's products and services on the basis of market information is not enough. We need to persevere, through trial and error, in the exploration for "new values" which are rooted in the practical needs of the customer. For this reason, we endeavor to identify and foster our creativity in every aspect of our corporate activities.

CSR Corporate Social Responsibility

While maintaining profitable operations, we act as a "corporate citizen having good judgment" by staying in harmony with the environment and participating in cultural activities, striving for a symbiotic coexistence with society.

This statement reflects our attitude towards social accountability as a corporation. Although a corporation is a citizen of the society to which it belongs, it cannot survive if it is unable to earn an adequate income. At the same time, it will lose the base of its existence if its fails to be properly recognized as a responsible citizen by society at large. We believe that in order for Hitachi Construction Machinery to have a prosperous future, we must be able to successfully coexist with society, remaining in contact with not only our customers but with society as a whole including the shareholders, industry, affiliate companies, and local citizens. This contact must be maintained with sensitivity and integrity.

What is the *Kenkijin* Spirit?

In pursuing our vision and principles, it is important to achieve the goals of the Hitachi Construction Machinery Group's medium- to long-term vision and mid-term management plan while responding to the demands of society in areas such as compliance and corporate social responsibility (CSR). The actions of each individual employee are the driving force behind these efforts. If these actions are in line with shared values and guiding principles, we can pursue our goals while making the most of each employee's ideas and initiatives. The *Kenkijin* Spirit, underpinned by the three ideas of challenge, customer, and communication, codifies these shared values and guiding principles to portray the attitude of a *Kenkijin*.

The Hitachi Construction Machinery Group contributes to the development of a sustainable society by providing our products and service.

As one of the core companies in the Hitachi Group, we contribute to creating safe and secure social infrastructure throughout the world.


Snow-removal machines

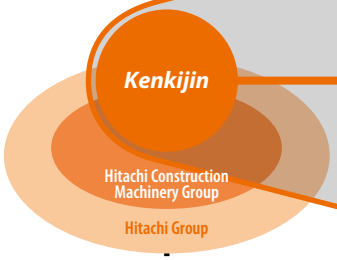

Mini excavators


Environment/recycling equipment


Hydraulic excavators


Crawler cranes

Manufacturing construction machinery



Development marketing (ascertaining needs and collecting/analyzing information) → Research → Development → Production/procurement → Demand projection/analysis

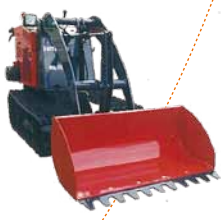

Rigid dump trucks


Road machinery (operational)


Applied products


Road machinery (small compactors)

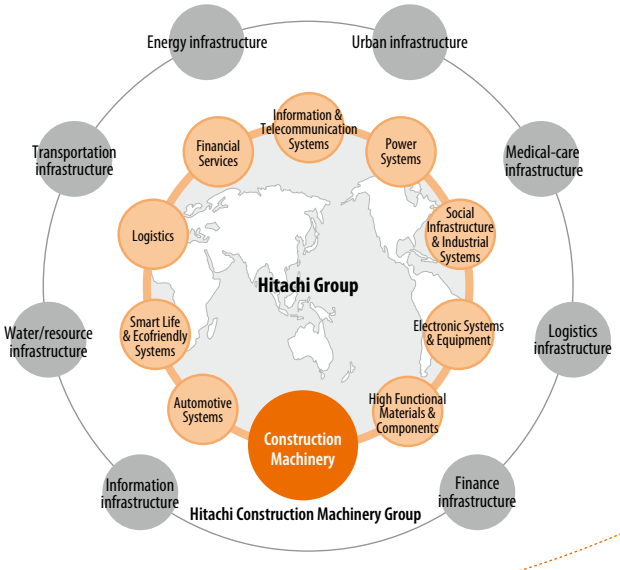

Wheel loaders


Mini loaders

Our Strength

Increasing comprehensive power of the Hitachi Group

The Hitachi Group is a corporate group centered on Hitachi, Ltd. The Group has developed a wide range of businesses, including ones related to Information & Telecommunication Systems, Power Systems, Social Infrastructure & Industrial Systems, construction machinery, High Functional Materials & Components, and Automotive Systems. Furthermore, the Hitachi Group has enhanced its Social Innovation Business that melds the infrastructure technology that the Group has developed over the years with the advanced information and communication technology (ICT). Utilizing the Group's integrated capabilities, we contribute to developing social infrastructure throughout the world based on the theme of sustainable development and environment amenities.



Activity 1 **Manufacturing** construction machinery

Hitachi Construction Machinery is a pioneer that was the first to develop hydraulic excavators in Japan. Since developing the hydraulic excavator purely made of domestic technology in 1965, the Hitachi Construction Machinery Group has developed and manufactured various types of construction machinery including excavators, dump trucks, wheel loaders, and crawler cranes. The Company has established a prominent position as a global construction machinery manufacturer. In recently years, the focus has been on developing environmentally conscious products and high-value added construction machinery, including dump trucks with autonomous technology.

Snow removal

Mine development and mining

Forestry

Livestock raising and agriculture

Using construction machinery

Finance | Rentals | After-sales service | Parts sales | Parts refurbishment | Resale of used equipment

Taking on challenges with construction machinery

Attainment of the richness of Earth and prosperous communities

Civil engineering

Demolition

Recycling

Stevedoring

Activity 2 Using construction machinery

In order to provide true customer satisfaction, it is important to supply highly reliable machinery and contribute to the greater productivity for customers' businesses through long-term stable operation. The Hitachi Construction Machinery Group is focusing on strengthening its post-sales machinery lifecycle support. We are working to strengthen various aspects of our business including after-sales services, parts refurbishment, and part sales, etc., in order to obtain information on equipment operation and prevent breakdowns using ICT.

Activity 3 Taking on challenges with construction machinery

Developments in social infrastructure and natural resource mines will continue particularly in emerging countries. On the other hand, human society is confronting various kinds of social issues such as resource/energy problems and climate change that hinder sustainable development. We take on the challenge of developing the society sustainably through providing our products and contribute to creating shared value to solve issues that human society confronts.

Pursuing our sustainable growth by contributing to society's sustainable development as a global construction machinery manufacturer

Yuichi Tsujimoto President, Chief Executive Officer and Director

Leading the evolution of construction machinery and taking on the challenge of creating new social value

The Hitachi Construction Machinery Group's vision is the evolution of 'machinery' and the synergy between 'humans' and 'business' to create rich living spaces, making them more comfortable, highly developed and efficient. The reason for our existence, our mission in society, is to continue to contribute to the sustainable development of customers and local communities by making use of our diverse lineups of products and services that embody this vision for the construction of social infrastructure and resource development throughout the world. No matter how the construction machinery market changes in the future, we will be sure to accomplish this mission, the basis of our Group's development, and this is the foundation of our CSR management.

New issues are always coming to light at construction sites throughout the world. For example, in Japan and other advanced countries, problems such as labor shortages and aging workers at work sites due to the falling birthrates graying of society and is becoming more serious, making it necessary to develop not only new solutions to increase the efficiency of the work site but also construction equipment that can be operated more safely and with greater reliability by even older operators and inexperienced operators. In addition, there are growing demands for construction machinery to be more eco-friendly as issues such as global warming and air pollution in emerging countries draw more attention.

At the Hitachi Construction Machinery Group, we are growing by contributing to customers and local communities and creating new social value through original products and services that meet these demands.

Providing products and services that contribute to solutions to the various problems faced by our customers through the collective strength of the Hitachi Group and propriety core technology

The technological capabilities that the Hitachi Construction Machinery Group has acquired since its founding is the driving force behind this value creation. Starting with the development of the first hydraulic excavators purely made of domestic technology in 1965, we have developed technology and products that are always at the forefront of the industry, such as being the first to equip construction machinery with satellite communication terminals in 2000, and accumulated various core technologies related to construction machinery.

Besides, in recent years, the Group is continuously working to introduce the latest technologies, including motorization technology that contributes to reducing environmental impact and electronic control technology, which is indispensable for developing advance products and improving the operability and safety of products.

To expand the technical range like these actions, our major advantage that competitors can't take is the collective strength of the Hitachi Group. The Hitachi Group, which is promoting its Social Innovation Business that provides safe and reliable social infrastructure throughout the world, possesses world-class technology in various fields. We have developed numerous cutting-edge products and services, including hybrid construction machinery with 30% greater fuel efficiency than traditional ones and dump trucks that make use of electromotive drive technology, which is used in the Shinkansen bullet train and other products, through close collaboration with Group companies, such as Hitachi, Ltd.

And we can also provide various benefits that make it possible to meet the diverse needs of customers, not only those related to construction machinery, through the collective strength of the Hitachi Group. For example, customers planning on developing and operating mines require not only equipment such as hydraulic excavators and dump trucks but also water treatment systems for refineries and conveyer belts or railroads to transport the natural resources from the mine to the port. Customers must also build various other types of the equipment, including power generation/transmission facilities to supply power to the other mine facilities and an energy management system to optimize the overall system. The Hitachi Group is able to meet all these types of needs related to mine infrastructure in an integrated manner.

Bringing together the abilities of *Kenkijin* who possess diverse individuality and skills and pursuing innovation from a customer perspective

The power of people is the driving force behind all activities undertaken by the Hitachi Construction Machinery Group. The Group employs more than 20,000 people throughout the world, and each one is an irreplaceable asset to the Group.

In order to draw out the potential of this human capital as much as possible, we have strived to spread the shared identity referred to as the "*Kenkijin* Spirit" and worked to foster a corporate culture in which each employee throughout the world can take on the challenge of creating technology, products, and services that provide new value by taking the perspective of the customers.

Of course, we also focus on education and training to improve the business skills of employees. For example, at overseas bases, we are strengthening the level-specific training for local managers and accelerating succession plans in order to move forward with efforts to localize operations. We also focus on efforts to raise front-line *MONOZUKURI* (manufacturing by skilled craftsmen) capabilities, and these efforts include introducing a qualification system for service technology and holding the annual International Skills Competition, at which representative participants from each production base throughout the world compete in terms of various technologies including welding, machining, painting, and measuring and so on.

Furthermore, for the company to generate innovation and create new value, it is indispensable to make use of the abilities of human resources with a wide range of values and ideas by promoting diversity. In order to do just that, in Japan, efforts are being made to support career development for female employees and promoting human resource exchanges between global bases. Mutual respect for and understanding among people with different nationalities, sex, cultures, traditions, etc., is the foundation of diversity. As for CSR-related efforts, including ones related to diversity, we are at the stage of identifying material issues in each base both in Japan and overseas in line with the Hitachi Group's new CSR strategy, which will be implemented starting in FY2015. Even for issues that could become major risks such as human rights, compliance (preventing corruption, etc.), and conflict minerals, we plan to properly respond in line with the Group CSR policy.

Focusing on increasing market share and raising business efficiency at a time of weak demand in global markets

As for market conditions that the Group faces, the future is uncertain because demand for construction machinery and mining machinery is not expected to improve in the short term due to the reemergence of the European debt crisis, further slowdown in China's economy, geopolitical risk, and low price for natural resource, and there are moves to tighten U.S. monetary policy.

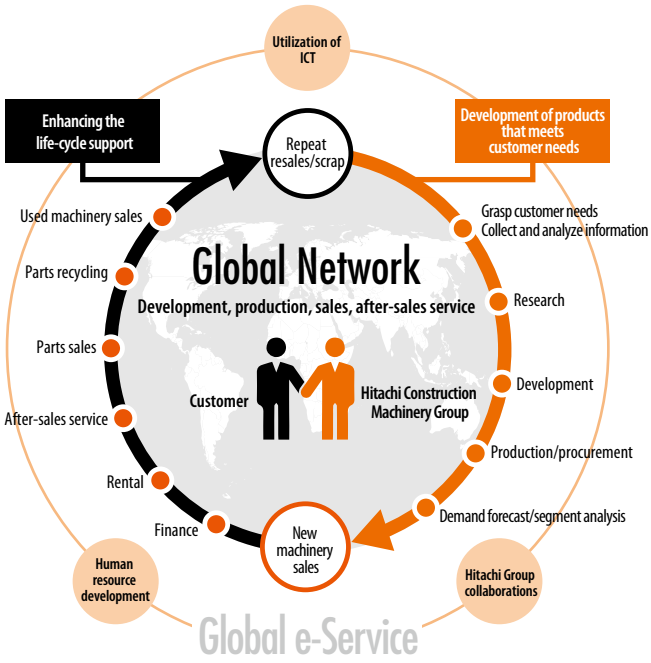
Under these harsh demand conditions and white-hot global competition, we have worked to further reinforce our global marketing sales support, increase market share, reduce costs, and improve business efficiency in order to establish a corporate structure for achieving sustainable growth.

As a result, consolidated net sales for the fiscal year ended March 31, 2015 rose to ¥815.8 billion, an increase of 1.6% versus the previous year, but operating income fell to ¥54.3 billion, a decrease of 21%, and ordinary income shrank to ¥52.7 billion, a decrease of 1.7%.

Working to strengthen the overall value chain based on the key words "reliability and differentiation"

Starting in April 2014, the Hitachi Construction Machinery Group launched the mid-term management plan "GROW TOGETHER 2016," the second step toward achieving "2020 VISION," the mid-term management vision. Through this mid-term management plan, we are aiming to reinforce the overall value chain and establish a robust corporate structure based on the key words "reliability and differentiation" by growing the seeds of new growth planted in the previous mid-term management plan "Go Together 2013."

For example, in terms of "Enhancement of Development Marketing and Advanced Technology Development," we are moving forward with efforts to create a global R&D system and reinforcing development marketing rooted in the needs of major markets. We have had success in developing models for the local markets of China and India and have started to export products from India to the Middle East. In the future, we will reinforce the development marketing functions in other regions such as Indonesia and Europe and will build a system that makes it possible to seamlessly use global R&D resources.



As for "Enhancement of Sales and Marketing," using the sales processes developed and knowledge acquired over many years in various countries, including Japan, we will create a

dealership support program for overseas, make sales processes visible through ICT, and strengthen human resource training support and sales activity support for dealers. As for the parts and service operation, we will increase the use of manufacturer genuine parts and expand the business by building a part supply network and making use of ICT, such as ConSite, which monitors the operating conditions of construction machinery throughout the world.

The major goal of "GROW TOGETHER 2016" is to strengthen the overall value chain of the construction machinery business and create a business model that "differentiates" the Group and wins the trust of customers based on "reliability" we offer through these efforts.

Supplying ICT services and dump trucks with AC drive that contribute to the efficient mining operations

Under the current harsh business condition, increasing the efficiency of mine management has become an even more important management issue for natural resource development companies. The Hitachi Construction Machinery Group will increase its presence in the market and further expand its mining business by providing technology, products, and services that precisely meet the needs of customers.

In addition to hydraulic excavators, of which we have the largest share of the global market, we will strengthen the product appeal of our dump trucks for use at mines, which we introduced in 2008. Rigid dump trucks with AC drive, which were developed jointly with the Hitachi Group, are the core product for our mining business. These are products that were developed by bringing together the development and design technology for extremely large construction machinery we have built up and various other technologies acquired through the development of the Shinkansen bullet train and in the social infrastructure business, including AC motor technology and electronic control technology. The AC drive not only provides greater fuel efficiency but also makes it possible to achieve stable driving even on slippery roads due to the detailed control of the vehicle and contributes to greater work efficiency. The "high-performance stability control technologies," which melds the technology of Hitachi, Ltd. in the field of automobiles with our own technology, was awarded JSME Medal for New Technology 2014 by The Japan Society of Mechanical Engineers. Furthermore, we are in the midst of a verification test of the automatic (unmanned) driving system for rigid dump trucks with AC drive.

Wenco, a Canada-based information system company that is part of the Group, provides systems that increase the efficiency of mining operations by collecting and analyzing the operating condition of the various mining machinery and supplying information such as travel routes, vehicle dispatch, and appropriate maintenance timing for dump trucks. Working with Hitachi, Ltd., we recently completed verifying and evaluating a mining operations management system that makes it possible to manage and use all information related to the mine in an integrated manner by storing it in the cloud and have started to commercialize the product. Because it is possible to hold down system introduction and operation costs with a cloud infrastructure, not only medium and small natural resource development companies but also customers who desire to manage multiple mine operations in an integrated fashion have high hopes for the system.

Furthermore, we want to make use of the collective strength of the Hitachi Group and meet the needs related to both mining machinery and the construction of various mine infrastructures under the "One Hitachi" efforts.

Continuing to move forward with customers and society to transform our corporate structure to one that can generate stable profits

Demand for construction machinery, which is indispensable in various fields including social infrastructure construction and resource development, is sure to grow in the medium and long term. Under current economic conditions, however, demand is unlikely to rapidly increase. Furthermore, competition with construction machinery manufacturers in not only the U.S. and Europe but also newly emerging markets is becoming fiercer.

In order to survive in this market environment, we must transform Hitachi Construction Machinery's corporate structure into one that can generate stable profits under any conditions. To do just that, we are striving to improve our ability to generate earnings and cash flows by quickly and precisely implementing the various policies in the mid-term management plan "GROW TOGETHER 2016." We will also continue to work with customers and society as a close, reliable partner selected by customers throughout the world.

Financial and Non-Financial Highlights

Hitachi Construction Machinery and Consolidated Subsidiaries
Fiscal years ended March 31

Note: Since the Company has adopted International Financial Reporting Standards (IFRS) since March 31, 2015, financial information in Financial section from P.60 is prepared in accordance with IFRS, while Financial and Non-Financial Highlights in P.11-12 is presented in accordance with Japanese Generally Accepted Accounting Principles (J-GAAP) in order to secure comparability.

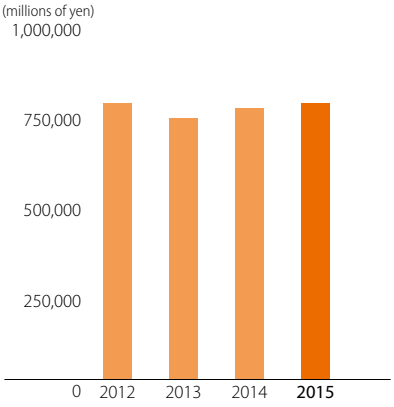
Financial Highlights (J-GAAP)

Unit: millions of yen (excluding per share data)

	2015	2014	2013	2012
For the year				
Net sales Point 1	815,792	802,988	772,355	817,143
Operating income Point 2	54,345	69,163	51,496	54,837
Net income before income taxes and minority interests	51,777	52,775	45,763	50,129
Net income	22,945	28,939	23,464	23,036
At year-end				
Total assets	1,047,872	1,087,191	1,099,901	1,086,116
Working capital	313,018	271,977	286,564	232,252
Shareholders' equity	394,711	383,355	361,874	345,689
Interest-bearing debt	277,005	363,411	393,102	388,904
Per share data (yen)				
Net income	107.95	136.24	110.77	108.88
Diluted net income	107.94	136.20	110.75	108.86
Net assets	1,975.73	1,827.59	1,704.34	1,522.86
Cash dividends (declared) Point 3	60.00	50.00	40.00	30.00
Other indicators				
Return on net sales (%)	2.8	3.6	3.0	2.8
Return on equity (%)	5.7	7.7	6.9	7.3
Equity ratio (%)	40.1	35.7	32.8	29.7
Price/earning ratio (times)	19.47	14.59	18.31	16.82

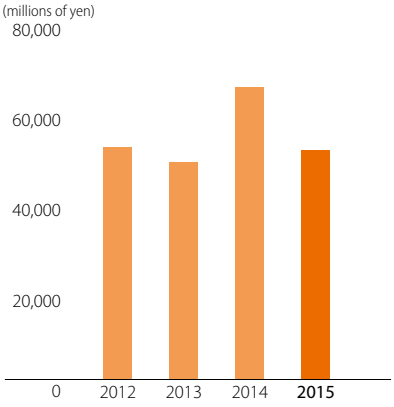
Point 1 Net sales

Although sales in China fell dramatically, net sales increased ¥12.804 billion because of an increase in sales in North America and Europe and the impact of exchange rates.



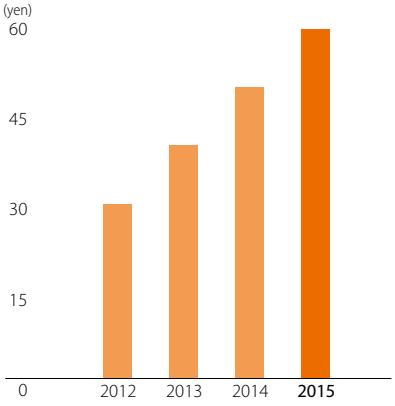
Point 2 Operating income

Operating income decreased ¥14.818 billion because even though exchange rates moved in a positive direction, sales prices rose and material costs fell, production volume contracted and changes in the region/product mix had a negative impact.



Point 3 Cash dividends (declared)

We paid an annual dividend of ¥60 per share for the fiscal year ended March 31, 2015 compared to ¥50 per share for the fiscal year ended March 31, 2014.



Unit: millions of yen (excluding per share data)

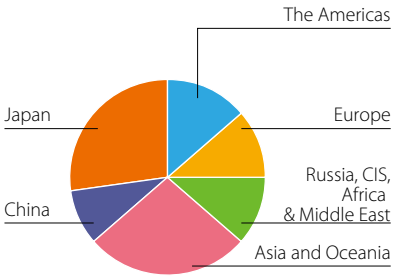
	2015	2014	2013	2012
Consolidated net sales by region				
The Americas	112,539	80,418	113,923	92,324
Europe	93,396	71,549	57,342	64,415
Russia, CIS, Africa & Middle East	92,086	87,382	80,915	71,715
Asia and Oceania	223,128	217,313	237,487	242,750
China	72,887	114,480	90,773	134,960
Japan	221,756	231,846	191,915	210,979

Non-Financial Highlights

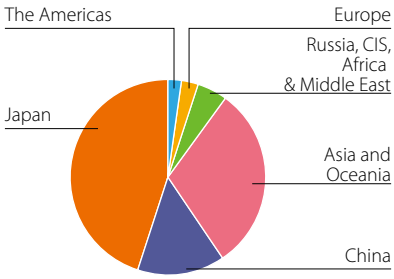
	2015	2014	2013	2012
Number of employees by region				
The Americas	482	463	492	461
Europe	580	578	559	548
Russia, CIS, Africa & Middle East	1,052	887	557	557
Asia and Oceania	6,488	6,472	6,027	5,978
China	3,075	3,164	3,510	3,601
Japan	9,449	9,347	10,669	10,669
Main environmental performance data				
Total amount of energy input (GJ)*1	2,915,004	3,169,306	2,901,055	3,182,871
Amount of CO_2 emissions (tons)*1	174,209	175,434	166,905	190,285
Amount of water resources input (m^3/year)*1	1,040,935	1,095,522	1,243,354	1,236,973
Sales of environmentally conscious products (million yen)*1	545,483	526,214	470,208	489,672
Environmental conservation cost (million yen)*2	8,838	8,768	8,134	8,006
Economic effects of environmental conservation (million yen)*2	1,085	1,051	1,030	1,292

*1 All Hitachi Construction Machinery Group bases (global)
*2 Major production bases of the Hitachi Construction Machinery Group (global)

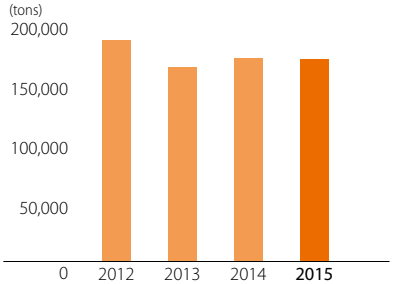
Consolidated net sales by region



Number of employees by region



Amount of CO_2 emissions (tons)

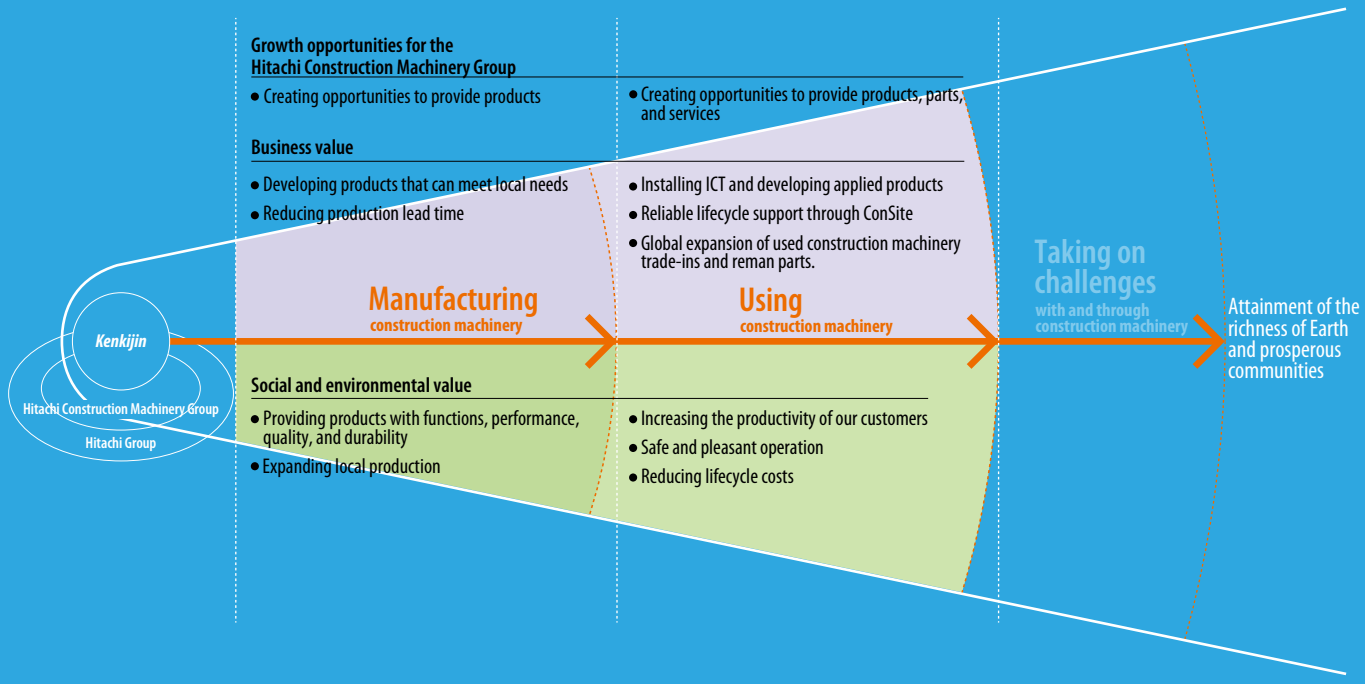


Chapter 1

For Customers

We raise the productivity and reduce total costs of our customers by providing highly reliable products and supporting their stable operation.

The Hitachi Construction Machinery Group is aiming to support the stable operation of highly reliable products, improve customer satisfaction and achieve growth as a construction machinery manufacturer through the whole product lifecycle from the manufacturing stage to the use stage.



Global demand for infrastructure construction is expected to increase on account of economic development in emerging countries. As their markets grow, the various companies in the construction and civil engineering industries are focusing their energies on improving competitiveness and safety through various efforts such as lowering costs and raising productivity at construction sites. On the other hand, in the mining industry, there is a need to reform business through improvement of productivity at mining sites and efficiency of mining operations in order to overcome the recent markets stagnation and expand the market. Furthermore, in recent years, various issues such as a shortage of skilled operators and graying of workers have become major problems at sites where this construction machinery is operated.

In order to develop solutions to these issues, we have taken on the challenge of creating new customer value with an eye on the whole construction machinery lifecycle. In addition to focusing on technological innovation in the "hard" (products) and "soft" (solutions) aspects, we provide construction machinery with the functions, performance, quality, and durability that meet the needs of customers in global markets but also develop solutions to improve productivity and safety management at construction sites and mines through the latest ICT. We are also putting more energy into customer support based on lowering lifecycle costs, and these efforts include providing remote failure diagnosis service (ConSite) for construction machinery being operated and strengthening the global parts supply network.

Key Figure

Development and production bases

Number of consolidated subsidiaries

Manufacturing companies	13
Sales companies	30
Manufacturing/sales companies	2
Equity-method affiliated companies	12

Number of manufacturing bases

Japan	17
Overseas	21

Number of ConSite contracts

* Refer to page 25 for details on ConSite.

Feature

Making Use of the Collective Strength of the Hitachi Group

Mining ICT's potential to reform mining management

As the price of natural resources continues to stagnate, streamlining and increasing the efficiency of mining management is becoming a major issue in the mining industry. In order to meet these needs, Hitachi Construction Machinery is focusing its energy on research and development and commercialization of mining information and communication technology (MICT) that will generate innovation in mining management through the use of cutting-edge information technology.

The FMS, a mining operations management system to optimize dispatch and use of mining equipment

At excavation mines, several dump trucks are generally assigned to each excavator, and the mined natural resources are loaded on one dump truck after another and then carried to any of various locations such as a refinery. In order to smoothly and efficiently undertake loading and hauling operations at mines, the dispatcher, who is responsible for dispatching vehicles, issues orders to vehicle operators while judging the state of operations. Efforts are made to increase productivity of mines by optimizing vehicle operation, and these include instructing dump truck operators to move to a different loading site if there is a long waiting time.

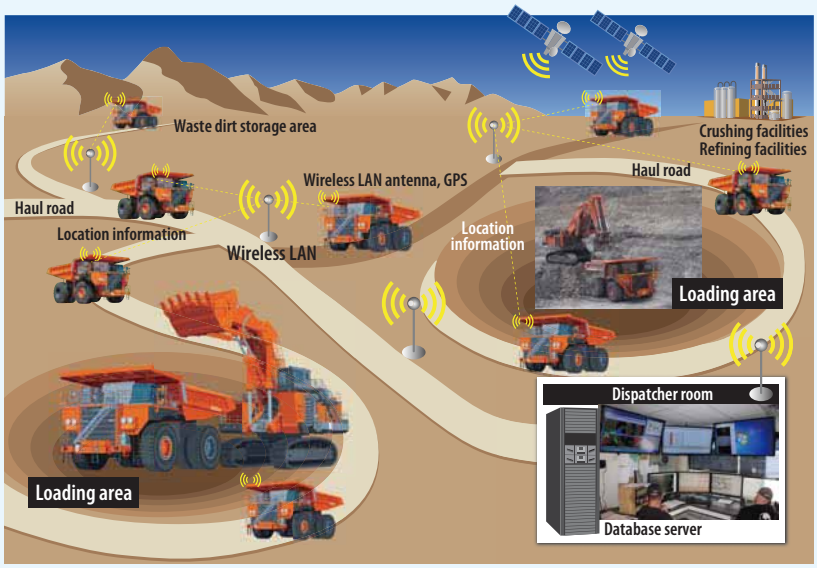
The Fleet Management System (FMS) is a MICT tool that makes it possible to conduct integrated management of vehicle and machinery operation and provides dispatchers with the information they need. In particular, the FMS developed by Canada-based Wenco, which joined the Hitachi Construction Machinery Group in 2009, has received high praise in the industry on account of its outstanding operability and cutting-edge technology.

Wenco's FMS is equipped with functions that make it possible to determine the location of excavators and calculate the number of dump trucks based on the load capacity and speed and to automatically set items such as efficient loading areas and hauling routes by entering targets such as the mineral content per truck and expected productivity for each mine. It is also possible to assist in predicting failures and preventing unexpected breakdowns, to optimize the number of replacement parts and mechanics to be assigned, and to reduce overall operation costs because aspects such as a vehicle's fuel consumption and condition can be consistently monitored.

We are moving forward with efforts to make use of Hitachi Group ICT and introduce Wenco's FMS hosted on cloud services. We are holding down system deployment and operating costs by utilizing cloud services and are working to make it possible for a wide range of mining companies to make use of the FMS.

FMS
Fleet Management System

Data such as payload derived by signals from sensors embedded in the vehicle, type of minerals, and GPS location is uploaded to the onboard computer and then transmitted via wireless network to the server. The data is analyzed in real time and displayed on the screens in the dispatcher room. Wenco's FMS includes advance functions that automatically set the destination and travel route and provides operators with instructions based on key performance indicators such as production volume.



This also has the merit of making it possible to conduct integrated management of operation at various mines remotely through Cloud.

Dump trucks AHS that reduces operating costs and increases safety

In addition to the FMS, Autonomous Haulage System (AHS) for dump trucks is another cutting-edge technology that contributes to a dramatic increase in the operation and energy efficiency of mining operations.

The weight of a dump truck that operates at mine excavation sites can reach 500 or more tons when fully loaded. It goes without saying that operators with advance driving skills and experience are required to safely and efficiently operate these huge vehicles. In recent years, however, it is becoming difficult for mines to secure operators and create a safe working environment because of where mines are located and the harsh working environment.

In order to resolve this problem, we have moved forward with research on and development of AHS that makes it possible for unmanned dump trucks to operate autonomously, and tests for commercialization of AHS dump trucks are now being conducted using multiple AHS trucks at mines in eastern Australia. AHS will be commercialized by making use of not only Hitachi Construction Machinery's advanced body design technology and controls but also the key technologies from Hitachi, Ltd. on its railroad operation management systems and various technologies, including those related to robot controls and car navigation, that the Hitachi Group companies have accumulated over the years in other industries. Furthermore, knowledge acquired by Wenco through its development and deployment of the FMS is used to safely and efficiently run multiple AHS dump trucks in the same area.

At Hitachi Construction Machinery, we plan to use the results of these commercialization tests to further improve various aspects, such as safety, reliability, and efficiency, and then launch sales in the coming years.

Working toward "Pit to Port" using the collective strength of the Hitachi Group

Mines consist of an extremely wide range of facilities, equipment and machinery, including not only excavators and dump trucks used at the mining site but also refineries, port facilities for loading product, and infrastructure for supplying power and water to each facility. In order to increase the overall efficiency of mining operation, it is important to optimize the total Pit-to-Port process.

The Hitachi Group can provide various products, technologies and solutions for the Pit-to-Port process, including not only mining machinery supplied by Hitachi Construction Machinery but also processing machinery, railroad/transportation systems, and power/communication infrastructure. At Hitachi Construction Machinery, we will continue to take on the challenge of providing new solutions that revolutionize mining operation and management by making effective use of the collective strength of the Hitachi Group.

Perspective 1

Manufacturing Construction Machinery: Research and Development

Group synergies and open innovation

Needs in the construction machinery market are growing more advance, and in order to meet these needs, Hitachi Construction Machinery is refining its proprietary technology and collaborating with independent entities, including the Hitachi Group, which possess cutting edge technology in a wide range of fields. The fruit of these efforts include motorization of construction machinery, driving safety systems that make use of the latest technologies in the automotive field, and periphery confirmation systems. At Hitachi Construction Machinery, we actively create open innovation with partners both inside and outside the Group and take the lead in technological innovation of construction machinery.

Promoting construction machinery innovation through the collective strength of the Hitachi Group

The collective strength of Hitachi Group is a major force behind the product and technology development at Hitachi Construction Machinery. The Hitachi Group, which is centered on Hitachi, Ltd., has businesses in various fields including Information & Telecommunication Systems, Power Systems, Social Infrastructure & Industrial Systems, Electronic Systems & Equipment, Construction Machinery, High Functional Materials & Components, Automotive Systems, and Smart Life & Ecofriendly Systems. Even if one looks at construction machinery industries in other countries, there are no other companies with such an extensive business backbone.

As for synergies with the Hitachi Group, there are benefits in three main areas. The first area of synergies is products. By making effective use of the various products and technologies possessed by Hitachi Group companies (electronic control devices and sensors, information and communication systems, etc.), we are able to rapidly and surely motorize and introduce intelligent technology into construction machinery and develop solutions that increase the efficiency of product maintenance and operations.

Hideshi Fukumoto
Executive Officer and General Manager of Research Division

The second area of synergies is technological innovation. Throughout the world, there are about 3,000 researchers and engineers in the Research & Development Group at Hitachi, Ltd., and they conduct basic research in various fields and develop next-generation technology and solutions. Working with R&D teams within the Group, including Hitachi, Ltd., our researchers and engineers strive to develop new technologies that will lead to innovation of construction machinery.

The third area of synergies is human resources. Many researchers and engineers in Hitachi Construction Machinery's R&D division and technology division have transferred from either Hitachi, Ltd. or other companies in the Hitachi Group. In fact, I also transferred from Hitachi, Ltd. three years ago. Furthermore, this is not limited to R&D sites. For example, there are cases when employees who have served as a CEO of a business division at Hitachi, Ltd. have been involved in Hitachi Construction Machinery's management. In this way, there are numerous employees who have accumulated various experiences within the Hitachi Group here, and they are involved in R&D and business management as insiders, which has diversified and enlivened the Company's organization and human resources and become a source of innovation in product development and business expansion.

In addition, at Hitachi Construction Machinery, we actively promote joint research and technology partnerships with not only other Hitachi Group companies but also independent entities, such as leading manufacturers, universities, research institutes, and hi-tech venture companies both in Japan and overseas, as second stage of open innovation. We will continue to strengthen partnerships and collaboration both within and outside the Group and take the lead in technological innovation related to construction machinery.

Development example 1

Improving driving stability using Hitachi Group's latest technology. Next-generation dump trucks with AC drive EH3 series

Hitachi Construction Machinery's EH3500AC-3, EH4000AC-3, and EH5000AC-3 (hereafter referred to as the "EH3 series"), rigid dump trucks with AC drive for the mining market, are next-generation dump trucks developed by melding Hitachi Group's latest technologies.

One of the new functions for the EH3 series is the stability control system developed jointly with Hitachi, Ltd., which possesses advance running control technology from the automotive field. The system increases the vehicle's driving stability by analyzing data collected from numerous sources such as pedals and sensors attached to the various parts of the body and issues independent control instructions to the wheel motor for each of the right and left wheels.

For example, the system smooths the movement of the vehicle and makes it possible to achieve stable acceleration/deceleration by identifying when rear wheels are spinning or locked and adjusting the motor torque when moving forward, accelerating, and decelerating on roads that are slippery or uneven. The system also determines if the front or back of the vehicle is vibrating up or down when going over dumpy roads, quickly accelerating, and climbing hills. Adjusting the motor torque reduces the vibration, improves the feel of the drive, and prevents load spills. It is also possible to control horizontal slipping when cornering, etc.

Improving the driving stability of the vehicle in this way not only can reduce the burden on the operator but also lessens the burden on the vehicle itself, which has various benefits for customers, including reducing troubles by extending the life of vehicle and parts. The innovativeness of the system has won high praise, and it was awarded JSME Medal for New Technology 2014 sponsored by The Japan Society of Mechanical Engineers.

Complete lineup of EH AC-3 series smart dump trucks

Development example 2

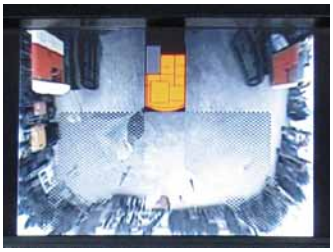
Peripheral Vision Support System that help prevent accidents with the dump truck

At mines, preventing dump trucks from crashing into other vehicles and equipment is an important safety issue. At Hitachi Construction Machinery, we offer the Peripheral Vision Support System, which makes it possible to check the area around the vehicle body from a bird's eye view as a system to reduce and prevent such accidents, as an option for the EH3 series.

The system was developed using technology for passenger cars that was developed by Clarion Co., Ltd., a member of the Hitachi Group. When introducing this device to dump trucks that are extremely larger than passenger cars and used in harsh environments, there were various problems such as differences in the area being photographed and distance, strength of the camera, and ability to withstand vibrations. Working with Clarion, we solved these problems using technology developed by Hitachi Research Laboratory.

The Peripheral Vision Support System consists of four cameras attached to the front, back, left and right of the vehicle, an image composition controller, monitor, and a switch to change screens. Until now, operators have needed to monitor what was around the vehicle using a combination of various tools, such as several mirrors and camera images to view the back. Introducing the Peripheral Vision Support System, which makes it possible to instantaneously check the area around a vehicle on the one monitor, has made major contributions to reducing operator burden and reinforcing safety management at mines.

In addition, Nissan Motor Co., Ltd. has provided moving body detection technology that detects and the movement of objects, such as vehicles, using video from cameras, and issues alerts accordingly. We are moving forward with efforts to develop it into a product.

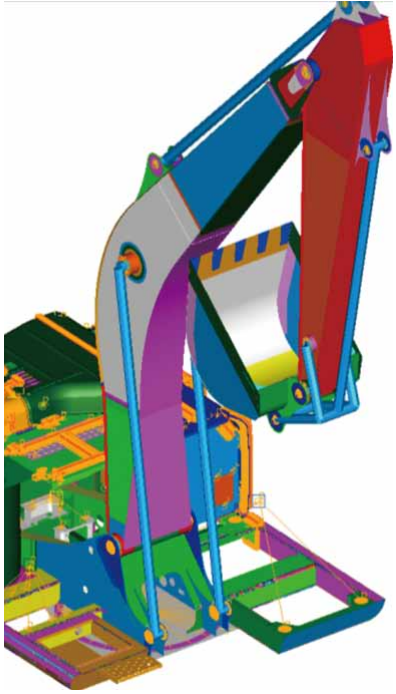


Seven-inch monitor that is easier to see on account of its size

Perspective 1

Manufacturing Construction Machinery: Research and Development

Innovation in *MONOZUKURI* (manufacturing by skilled craftsmen) through analysis lead design



Hitachi Construction Machinery has introduced analysis lead design (ALD) that makes active use of simulation technology from the initial product development stage in order to quickly provide construction machinery that meets the diverse performance and quality demands of the global market. Having established an in-house specialized Experiment, Analysis & Evaluation Center, we are working to shorten the product development lead time and improve quality and reliability through ALD.

Using simulation analysis in the upstream development stages to reduce costs and lead time

In recent years, as the market for construction machinery has expanded, construction machinery is being used in a broader range of ways and operated in more diverse environments. For example, although the same hydraulic excavator may be used in coal mines and diamond mines, there are major differences in the hardness of the bed rock in the two mines. In addition, some construction machinery is operated in regions such as Africa and the Middle East where daytime temperatures soar to around 50°C and other machinery is used in the harsh cold of Russia and Northern Europe, where temperatures fall to -10°C. On the other hand, in some markets, such as where construction takes place in cities and residential areas, stress is placed on reduced noise and the extent that exhaust gas is filtered out of consideration of the local community.

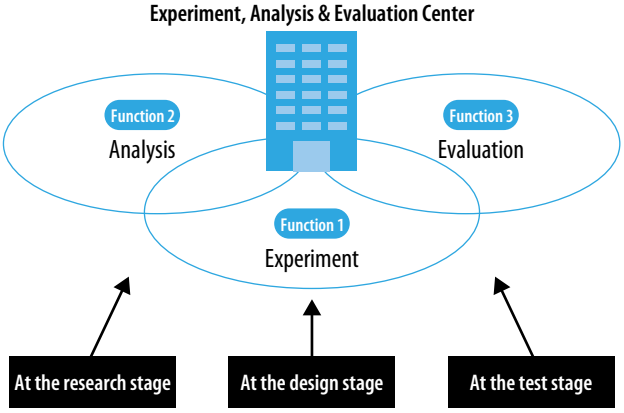
At Hitachi Construction Machinery, we are pouring our energy into product development process innovation by introducing ALD in order to provide competitive products that meet market needs, which are becoming more diverse and advanced as discussed above, quicker and with greater certainty.

ALD is a development method for moving forward with detailed designs that reflect the results of advance evaluations of aspects such as product performance and durability through simulation analysis starting with the upstream stages of the product design process. Computer simulation analysis is already widely used in various manufacturing industries, but it has had limited impact on increasing development efficiency because it was mainly used for confirmation and verification after detail designs were created. On the other hand, it is expected that ALD will reduce costs and development lead time by eliminating rework through advance evaluations starting with upstream processes. It also has the benefit that more innovative products can be developed because it is possible to efficiently and quickly verify designs that incorporate new technologies and ideas.

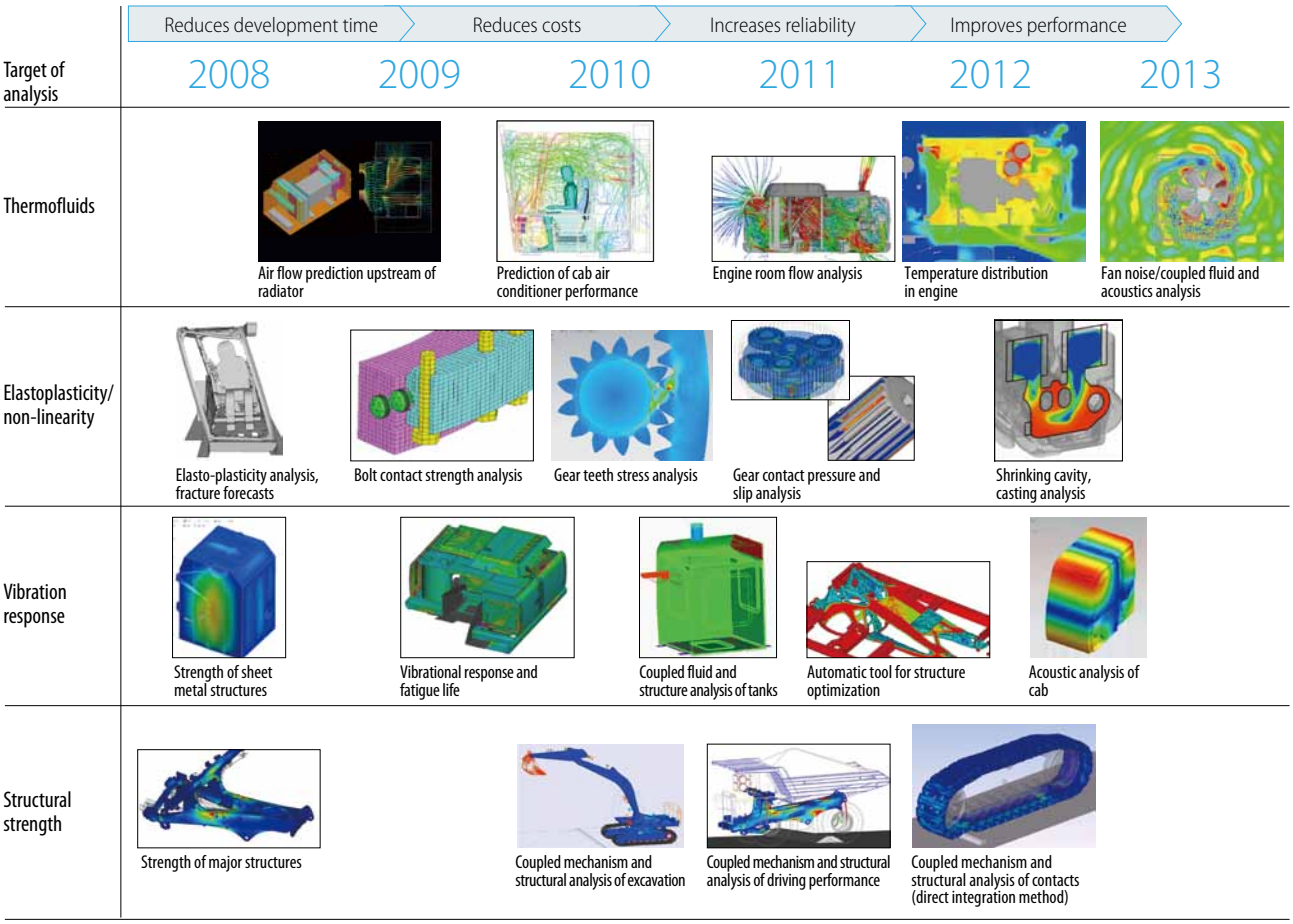
Increasing the precision of advance evaluations by comparing tests with simulations

At Hitachi Construction Machinery, we have focused on the effectiveness of ALD since 3D/CAD was introduced in 1997 and have poured our energies into advance evaluations of designs using simulations. In October 2008, we launched the Experiment, Analysis & Evaluation Center, which brings together the core members responsible for various fields including analysis, evaluations, and tests at each in-house division. At the center, we have created an environment to make more effective use of ALD, including developing evaluation analysis tools and modeling technology necessary for the advance evaluation of construction machinery. On the other hand, after we complete a test product, we move forward with field tests in markets throughout the world. By repeatedly comparing and verifying simulation results against the test results of the actual machinery item and revising the analysis model, we improve the precision of advance evaluations based on simulation analysis.

Experiment, Analysis & Evaluation Center functions



Evolution of ALD technology

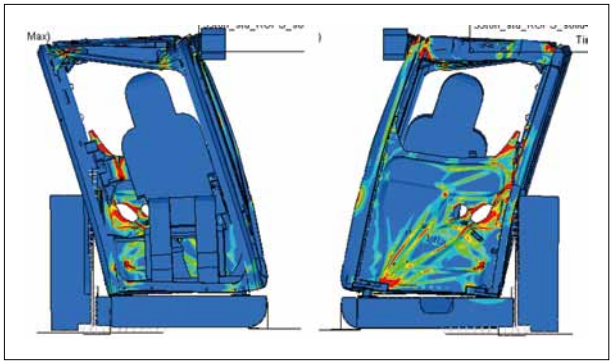


Since introducing ALD, we have steadily reduced lead time and costs of product development. As the precision of and number of evaluation items of advance evaluations increase, ALD is becoming an indispensable method even when pursuing product performance and reliability.

We are introducing model-based development, which makes use of simulations in the development process, for not only hardware but also software embedded in electronic control systems, etc., and working to improve design quality, shorten development times, and reduce development costs. For example, model-based development was used when developing the embedded software for the body stability control system, which was included in recent rigid dump trucks with AC drive and has received high praise in the market.

At Hitachi Construction Machinery, we will continue to pursue more advanced development processes and construction machinery innovation by making effective use of the latest ICT.

Elasto-plasticity analysis of ROPS test (lateral)



Prediction evaluation of roll-over-protective structures (ROPS), a safety standards for operator's seat

Perspective 1

Manufacturing Construction Machinery: Research and Development

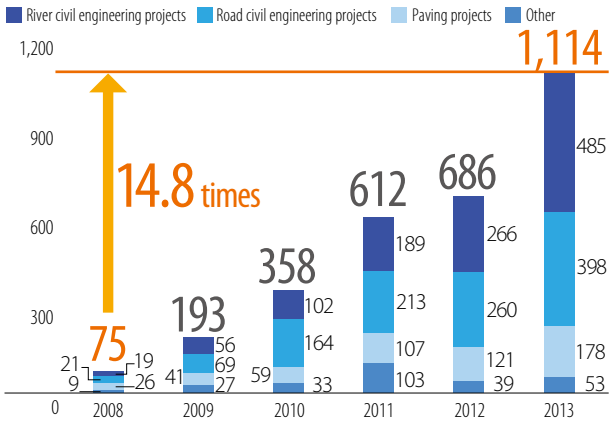
Responding to computer-aided construction

As various problems, such as the lack of skilled workers and graying of current workers, grow more serious within the construction and civil engineering industries, computer-aided construction, which makes it possible to precisely and efficiently conduct work making use of the latest ICT, has attracted more attention. At the Hitachi Construction Machinery Group, we are working to commercialize new computer-aided construction systems in collaboration with sensor manufacturers and construction companies and are contributing to greater productivity at construction sites, a reduction in the number of required workers, and greater safety.

Achieving precise and rapid construction using cutting-edge ICT

Computer-aided construction refers to new construction methods that achieve greater efficiency and precision in machinery work through the effective use of ICT. At a time when current workers are growing older and the lack of skilled workers is becoming more serious in the construction and civil engineering industries, computer-aided construction is attracting attention as a method with various benefits including improving the efficiency of operations, shortening construction time, reducing the number of required workers and increasing precision and safety. In addition, using the digital information obtained through computer-aided construction for various activities such as post-project surveys and maintenance contributes to greater productivity and ensures quality in the overall construction project. The benefits of these methods have won high praise, and in recent years, there has been stronger movement in both the public and private sectors to promote computer-aided construction, which is evident in various developments, including the method being adopted as a standard construction method for road and river civil engineering projects under the jurisdiction of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

Number of projects using computer-aided construction technology



Since the Computerized Construction Promotion Strategy was set in 2008, the number of public works projects by MLIT that make use of IT has been growing.

Source: "Completed Projects that Used Computerized Construction (2015 Final Totals)," material used at the sixteenth meeting of the MLIT's Computerized Construction Promotion Committee.

Development of technologies and products compatible with computer-aided construction

At Hitachi Construction Machinery, we provide solutions appropriate for the customer's worksite through sales and rentals, and these solutions have included a machine guidance system for hydraulic excavators that assist operators and a compacting management system that aids firm compacting by compactors. Furthermore, we were the first company to start developing technologies applicable to computer-aided construction and were the first company in the industry to develop a hydraulic excavator with area restriction control technology (machine control) that semi-automatically controls the top edge of the bucket using construction data. We have also developed technology and products that make use of ICT in line with the advanced needs of customers, such as a monitor display system that supports operators when excavating in water and other locations with no visibility and unmanned remote control system for working in areas that people cannot enter, including disaster areas. Using our experience and accumulated technology, we are moving forward with the development of machinery compatible with computer-aided construction methods that possess the latest functions. We will accelerate the development of products that meet the latest needs of customers.

Machine guidance system: The angle and height of the hydraulic excavator bucket and information on the location of the machinery is displayed as images and figures on a specialized monitor, and the operator can determine the work position using that information.

Perspective 1

Manufacturing Construction Machinery: Development Marketing

Reinforcing the strategic development marketing system and global production system

At Hitachi Construction Machinery, we are pouring our energy into creating a global strategic development marketing system in order to precisely ascertain the needs of customers in markets throughout the world and reflect those needs in products and services. With the goal of achieving a world-class level of safety, quality, delivery, and costs (SQDC), we are attempting to further expand our global production system, which includes launching local production in both Russia and Brazil in recent years.

Reinforcing the strategic development marketing system and introducing the most appropriate products for each market in the world

For construction machinery, it is often the case that not only the legal requirements but also how products are used, construction methods, and the environment that products are used in (weather conditions, fuel quality, etc.) depend on the country and region. At Hitachi Construction Machinery, we focus our energy on creating a global strategic development marketing system in order to provide the most appropriate products for the diverse needs of a particular market in a timely manner.

We launched a Development Strategy Department that coordinates product development throughout the world in 2011, and established development marketing units that are responsible for gathering information, design, and quality assurance at production/sales bases in the major markets. Working with the Development Strategy Department in Japan and the research and development division at the mother plant Tsuchiura Works, the development marketing units in each area focus on original-product development that is based on a global standard model and incorporates the various needs of local markets. Development of models for the local market has already been launched in China and India, and we have started to export models from India to the Middle East.

In the future, we will reinforce the development marketing function on a global scale and provide competitive products optimized for the needs of each market.

Awarded the 2015 China Construction Machinery TOP 50 Awards Gold Medal for Creative Technology

Expanding the global production system and strengthening competitiveness in markets throughout the world

Hitachi Construction Machinery has worked to fully launch local production since the 1980s in order to respond to growing overseas markets and local legal requirements, reduce costs, and avoid foreign exchange risk. Since the 1990s, we have launched production in various countries including Indonesia, China, and India in response to the growing markets of emerging countries. We have also launched local production in Russia and Brazil starting the 2010s.

In Russia, we opened a new plant in Tver, an industrial city neighboring Moscow. The plant produces mid-size hydraulic excavators, which there expected to be greater demand for on account of the construction of urban infrastructure and pipelines and the development of mines, and started shipping the products within Russia in June 2014. In Brazil, we partnered with U.S.-based Deere & Company, one of our important partners, to establish a joint venture that manufactures and sells excavators locally. Production was launched in September 2013.

We will continue to focus on expanding local production systems in major markets throughout the world and strive to improve our business competitiveness through local production and consumption in order to contribute to job creation and local economies.

Russian plant

Perspective 2

Using Construction Machinery: Parts Sales

Generating customer satisfaction through the "Double Parts Sales Project"

Repair parts and consumable items are indispensable for construction machinery maintenance. At Hitachi Construction Machinery, we created the "Double Parts Sales Project" so that more customers can use high quality repair parts and consumables with confidence. We focus on aggressive sales promotion activities for parts, including expanding the product lineup to meet the diverse needs of customers. Efforts are also made to reinforce the global parts supply system so that customers throughout the world are sure to quickly receive parts.

Lineup of "Hitachi Select Parts" that provide greater cost performance

In order to be able to safely and comfortably use construction machinery, it is important to maintain the machine in good condition by conducting periodic maintenance, including replacement of parts and consumables. At Hitachi Construction Machinery, we provide repair parts and consumable items necessary for maintenance and repairs through sales companies and dealers throughout the world.

In the market, one can find genuine parts, which we guarantee the quality and performance of, and also other parts made by parties such as local manufacturers. Thus, we developed the Double Parts Sales Project - the goal of which is to double the parts sales in five years - so that more customers can use parts and consumables provided by Hitachi Construction Machinery.

During Phase 1 of the Double Parts Sales Project which we launched in 2009, we introduced "Hitachi Select Parts" in addition to the existing lineup of genuine parts. This is a series of parts that we have selected from third party manufactured parts that possess a certain level of quality and performance, which meet the needs of customers who want less expensive parts than genuine parts. After confirming their quality, we provide these superior-cost-performance parts to customers with a guarantee under the Hitachi brand name. In the past, we did not have Hitachi brand name oil products, such as engine oil and gear oil, but working with Japanese manufacturers, we have developed them so that customers can choose Hitachi genuine oil with confidence. Also, in order to combat counterfeit products, we introduced part labels with holograms, and working with Hitachi, Ltd., we launched efforts to disclose merchants illegally selling counterfeits in foreign markets.

Koji Tahara
General Manager, Spare Parts Division, Life Cycle Support Operations Division

Furthermore, we have strengthened our support for parts sales activities at sales companies and dealers. In addition to creating various sales promotion materials and a portal site, we have introduced "Hitachi Parts Potential (HPP)" in order to ascertain the capture rate for our parts in the market. The operating state of our construction machinery in each market can be shown using data from Global e-Service, and actual machine check-up by services staff. Then, HPP calculates the total demand of repair parts and consumables using information such as replacement timing of the parts for each machine. It is possible to ascertain the capture rate for Hitachi products by comparing actual sales to demand. There is a lot of room to promote sales in markets and for products with low capture rates.

Because of these aggressive efforts, it was possible to double sales of parts between FY2009 and FY2014 virtually just as planned.

Organizing marketing staff in each country and creating a plan to expand Group parts sales

Because of this success, we have moved forward with Phase 2 of the Double Parts Sales Project to double parts sales between FY2013 and FY2018. In Phase 2, we are reinforcing the various efforts in the first plan, such as expanding the lineup of Hitachi Select Parts and Hitachi genuine oil.

As for new efforts, in April 2014, we established the "Parts Marketing Committee" as a strategy committee composed of staff responsible for parts sales at sales companies and major dealers in various regions. In addition to exchanging information on market needs and sales promotion activities in each region, we are working to create a parts sales strategy for the whole Hitachi Construction Machinery Group. For example, in the past, there were cases when each sales company sold parts from local parts suppliers individually. However, based on deliberations by the committee, the most competitive locally supplied parts in terms of quality and cost were chosen to be used as Hitachi Select Parts. We are pursuing greater cost benefits by handling the same products throughout the world.

Efforts are also being made to reinforce our parts supply network, which include opening the Tsukuba Central Parts Depot in 2014 so that we can quickly and precisely deliver the parts that customers need to markets throughout the world. The parts warehousing functions were traditionally split between the Tsuchiura Works and 20 or so rented warehouses, but they have been consolidated within the new warehouse. We have been successful in cutting the lead time from receiving an order to shipping the product by half through third party logistics (3PL), in which shipping operations are outsourced to Hitachi Transport System, Ltd., a professional in logistics. We plan to build an optimal global parts supply network, which involves sharing parts inventory information among bases throughout the world, and replenish any stock out by supplying each other with necessary parts.

At Hitachi Construction Machinery, we are focusing on various activities, including reinforcing this supply network, training of parts sales staff, and making effective use of ConSite data. We will continue to raise the parts capture rate in markets throughout the world, and increase parts sales, particularly in the mining field. Then, we will increase customer satisfaction by reinforcing the lifecycle support for our construction machinery.

Highlight in 2014

Tsukuba Central Parts Depot, core base for supplying parts to markets throughout the world

The core base in the global parts supply network of Hitachi Construction Machinery is the Tsukuba Central Parts Depot (CPD), which opened in April 2014 in Tsukuba City, Ibaraki. The construction and operation of the center incorporates the knowhow of Hitachi Transport System, Ltd., a member of the Hitachi Group that specializes in logistics. In the warehouse, which encompasses about 52,700 m^2 of total floor space in a building with two above-ground stories, we have installed the latest movable racks and conveyer-belt system and introduced a warehouse management system, which has made it possible to efficiently handle more than around 230,000 parts.

Movable rack

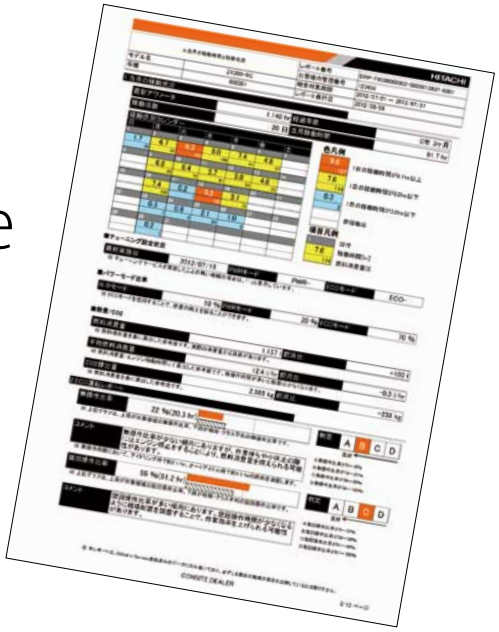
The Tsukuba CPD can also rapidly complete the whole range of shipping operations from parts pickup, inspection, coating, packaging, and vanning since the warehouse is equipped to handle parts coating and rust-proofing, which has traditionally been outsourced. Furthermore, the warehouse is licensed as an Authorized Economic Operator/ Regulated Agent, and being able to take products to the port or airport after completing customs procedures in house has contributed to a major decline in lead time.

Exterior view of the Tsukuba CPD

Perspective 2

Using Construction Machinery: After-Sales Service

ConSite, an information service that supports the stable machine availability



Since 2013, Hitachi Construction Machinery has provided the customers with ConSite, a service with various functions such as analysis of how customers' machinery is operating and reports on failure symptoms using Global e-Service, which makes it possible to remotely check information on the machine being used. This supports the stable machine availability and reduction of lifecycle costs through highly precise symptom detection and proactive service.

Reducing lifecycle costs by preventing any possible failure from ConSite

Through our ConSite Data Report Service, we analyze information collected through Global e-Service and provide the customers with not only Monthly Reports of how their machinery is operating by email each month but also Emergency Reports sent in real time to operators and owners in the case there is a critical change linked to sudden problems with machine.

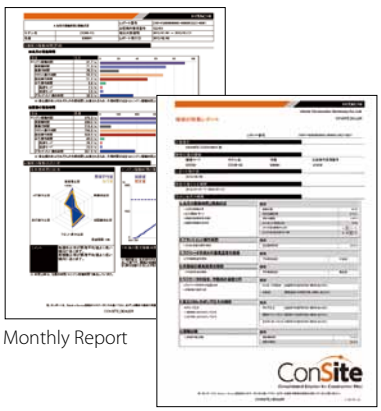
With Emergency Reports, it is possible to take any necessary action quickly before machine break-down because the reports can be sent not only to computer email accounts but also mobile phones and smartphones. Furthermore, responsible service staff are able to promptly provide precise advice to the customers since the information included in reports sent to customers is also shared with service staff.

On the other hand, for Monthly Reports, thorough efforts are undertaken to make the state of operations visible, which includes showing the machine operating hours and fuel consumption in a calendar format for each month and using a three-color coding so that the length of machine operating hours can be determined at a glance. Furthermore, variations in the temperature of oil, which can easily impact the machine life, are also color coded by temperature range, making it possible to determine differences in temperature while comparing it with the average ambient temperature. Using this data, the customers can correctly ascertain how much adding a load on their machine and the health conditions of their machine, such as an increase in oil temperature.

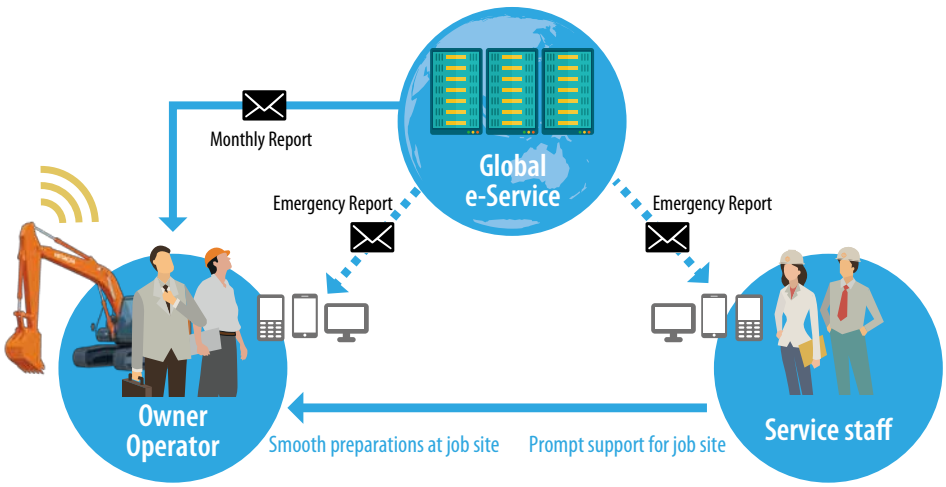
Highly precise symptom detection and proactive service make it possible to prevent any possible failure, achieve stable machine availability, and efficiently reduce maintenance costs. Furthermore, maintaining machines in good condition through precise maintenance extends the machine life and increases its value when traded in.

We will expand the regions that ConSite is available in from Japan where it was initially launched to not only Southeast Asia, including Indonesia, Thailand, and Malaysia, but also Europe and other countries.

Outline of ConSite Data Report Service



Monthly Report



Perspective 2

Using Construction Machinery: After-Sales Service

Pursing customer satisfaction

In the turbulent global market, it is crucial to have a mechanism to manage the various information related to customers in an organized, methodical manner, not one that depends on the person, in order to increase customer satisfaction. At the Hitachi Construction Machinery Group, we strive to meticulously meet the needs of customers by collecting and managing customer information utilizing ICT, such as Global e-Service, which provides integrated management of machinery operation and related mechanical and technical information, and Hi-STEP for managing progress in overseas sales.

Conducting customer satisfaction surveys

At the Hitachi Construction Machinery Group, we conduct satisfaction surveys of customers throughout the world who are randomly selected for the survey so that we can reflect their opinion in products and parts service business.

The most appropriate survey method is selected for the customers' convenience, in which questions are presented either on an online questionnaire, by a visiting survey taker, or over the phone. The results of the survey are used when examining future strategies in the various regions.

The most recent survey was conducted in March and April of 2015. As of April 30, around 2,200 people/companies had completed the questionnaire. There are plans to conduct the same type of customer satisfaction survey in FY2015, too.

We will continue to strive to reflect the honest opinion of customers and further improve customer satisfaction.

Ensuring a common quality level throughout the world with "Made by Hitachi" as the key word

At the Hitachi Construction Machinery Group, we are promoting various activities to increase quality, and these efforts include the Global Production Checks, an overall evaluation of safety, quality, delivery, and costs (SQDC) in order to ensure that products manufactured at any plant throughout the world provide the same quality and safety.

In FY2014, we compared 20-ton-class medium excavators from four plants throughout the world in order to measure the results of these efforts. Products produced by Hitachi Construction Machinery, Hitachi Construction Machinery (China), Hitachi Construction Machinery Indonesia, and India-based Tata Hitachi Construction Machinery were displayed at the Technical Research Center for two months, during February and March 2015. We received various comments from parties involved in several operations, including sales and development, such as "you cannot figure out the manufacturer unless you check the name plate," and "I was surprised that all the products were extremely well made."

Assembly of hydraulic evacuators from four countries

We will continue to pursue manufacturing that makes it possible to meet quality and safety standards of the Hitachi Construction Machinery Group and for customers in any country to use the products with peace of mind.

Strengthening service support

At the Hitachi Construction Machinery Group, we hold the Service Mechanic Competition in order to increase the service skills of mechanics who directly work on customers' machinery.

In FY2014, the seven champions from the seven regional tournaments gathered at the Technical Training Center and competed in terms of technical knowledge, repair skills, and customer service. Based on the results of the written test, practical skills test, and reporting test, a mechanic from CablePrice (NZ) Limited was awarded the Most Valuable Service prize.

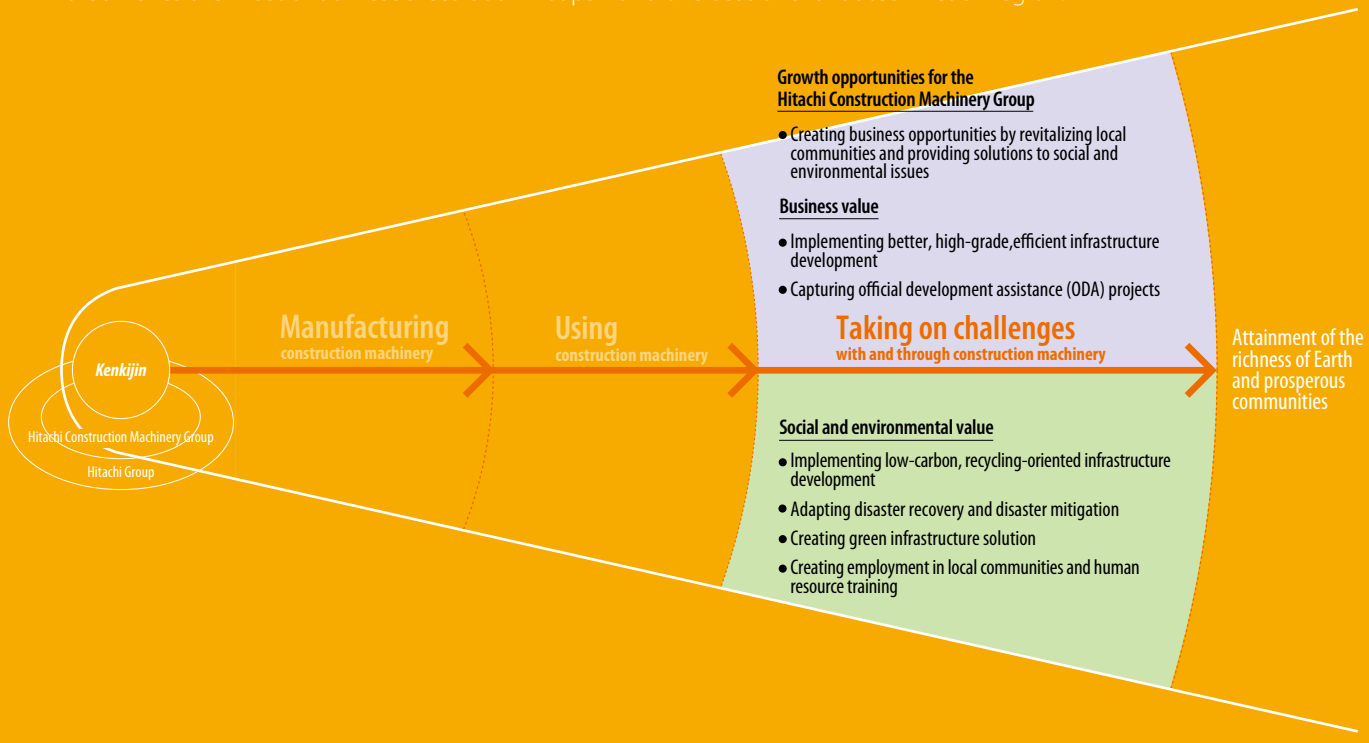
Commemorative photo of all related parties

Chapter 2

For Local Communities

Providing products and services that meet the needs and demand in regions throughout the world in accordance with the mid-term management plan GROW TOGETHER 2016.

In April 2014, we launched the mid-term management plan GROW TOGETHER 2016.
In order to continue to grow in an environment in which there is limited growth in demand and global competition is becoming fiercer, we are moving forward with efforts to create a system and mechanism to establish a development, manufacturing, sales, and after-sales service value chain that makes the most of our resources both in Japan and overseas and is rooted in each region.



The Hitachi Construction Machinery Group faced difficult market conditions in FY2014 as China's economy growth stagnated and demand in Asia and Oceania slowed. Furthermore, global competition with not only traditional competitors but also manufacturers in emerging countries, such as China and South Korea, continued to grow fiercer.

Under these conditions, we worked on various fronts including building a global R&D system, strengthening development marketing rooted in front-line needs truly demanded by customers, and streamlining production and reducing costs in regions throughout the world in line with the mid-term management plan GROW TOGETHER 2016 in order to establish a corporate structure for sustainable growth.

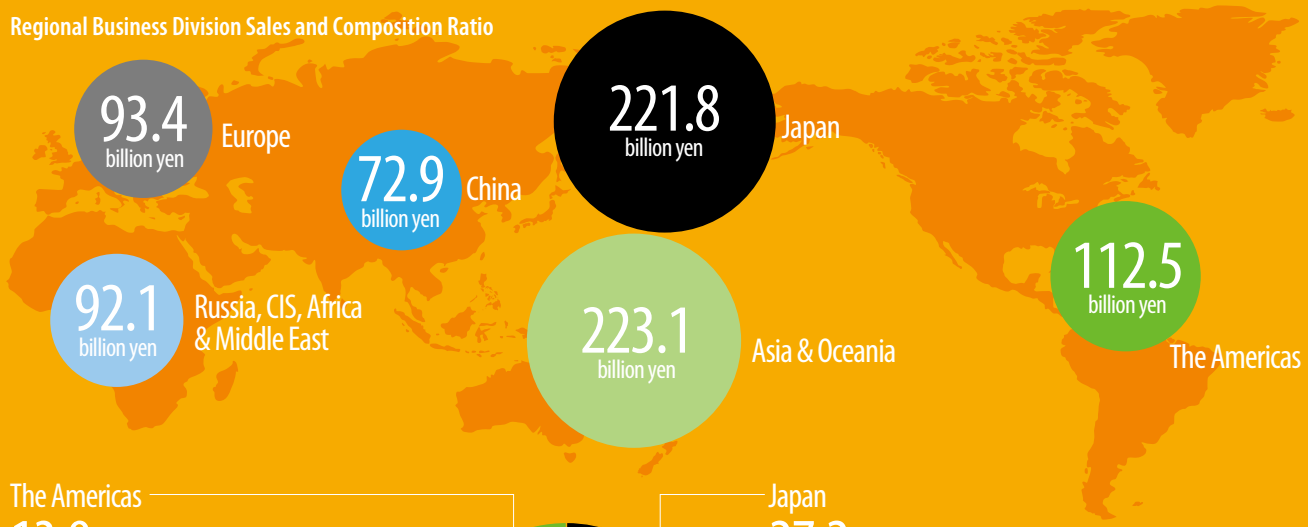
As for particular efforts during FY2014, in Japan, we worked to increase customer satisfaction by providing one-stop services— rental, sales, and service (RSS)—and moved forward with efforts to reinforce our lifecycle support by launching operation at the Tsukuba Central Parts Depot. We also built a global parts supply chain. Furthermore, in China, we promoted the use of ICT in order to strengthen the cooperative relationships with dealers and strived to improve the sales/service system.

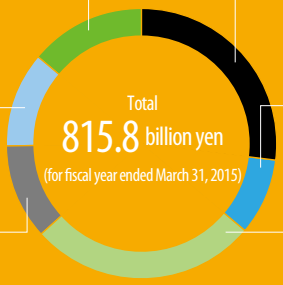
In Asia and Oceania, we not only expanded sales of new models in India but also focused on expanding in new regions, such as Myanmar and the Philippines. As for Europe, efforts were made to aggressively increase sales of fuel-efficient construction machinery and implement measures to strengthen sales skills in Eastern Europe.

We will continue our efforts in each region with an eye on global demand trends and make our global value chain more robust.

Key Figure

Regional Business Division Sales and Composition Ratio





The Americas
13.8% (112.5 billion yen)

Russia, CIS, Africa & Middle East
11.3% (92.1 billion yen)

Europe
11.4% (93.4 billion yen)

Japan
27.2% (221.8 billion yen)

China
8.9% (72.9 billion yen)

Asia & Oceania
27.4% (223.1 billion yen)

Feature

Supporting Growth in Emerging Countries

Working on projects to help Cambodians open up fertile land

In order to develop truly fertile land and affluent communities and build a healthy and rich environment for people living in areas throughout the world, it is important to focus on solving the social issues that each local community faces.

For example, let's consider Cambodia. In Cambodia, which is said to have the greatest concentration of buried landmines, the Hitachi Construction Machinery Group is providing support for Cambodians becoming self-sufficient through help for Good Earth Japan (GEJ), a specified non-profit organization (specified NPO) that operates in the country.

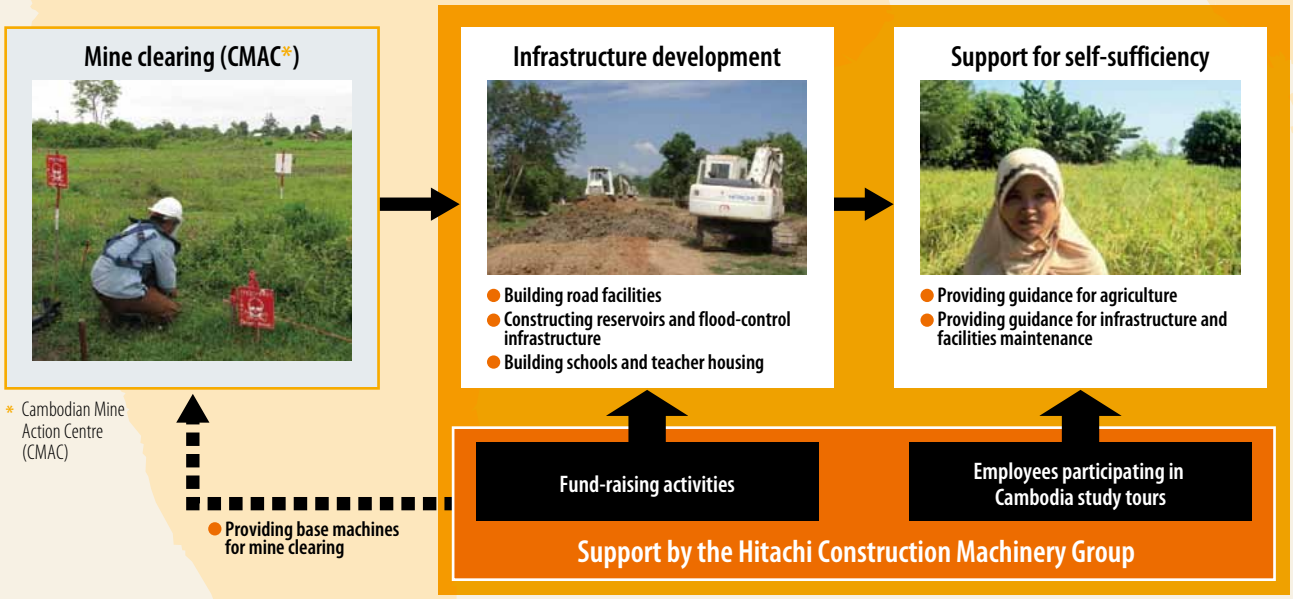
The Hitachi Construction Machinery Group supports Good Earth Japan, which helps Cambodians become self-sufficient after land is cleared of landmines

For almost 30 years starting in 1970, Cambodia struggled through civil war. During the civil war, the four factions (government army, Khmer Rouge, supporters of King Sihanouk, and supporters of Son Sann) laid a vast number of anti-personnel landmines in this small country. Anti-personnel landmines are a major humanitarian problem because they indiscriminately cause harm to general citizens and threaten the safety of local residents. Many of the mines buried during the civil war are still there in 2015, and they continue to cause many injuries and deaths. It is estimated that between four and six million landmines were buried, and Cambodia is called the country with the greatest concentration of buried landmines in the world.

Landmines, which threaten the safety of people and hinder social development, are a major social problem faced by Cambodia. In order to overcome that problem, government bodies and NGOs continue the work of clearing landmines even today.

On the other hand, once the landmines have been removed, what remains is wild land. There is no infrastructure foundation to support life and society, and local residents lack the knowhow to develop the land and make it fertile. While

Support activities in Cambodia (● = support activities undertaken by Good Earth Japan)



Cambodia is an agricultural country, and most farmers make a living by growing rice, productivity is low, and life is difficult. Furthermore, many people have been injured by landmines, and it is not easy for these people to become self-sufficient.

The specified NPO Good Earth Japan (GEJ) works to rebuild local communities after landmines have been cleared and provides support for people rebuilding self-sufficient lives. We are working on a project to partner with Cambodians to develop fertile land through support for GEJ, such as fund-raising drives. Established in 2007, GEJ launched its support activities in April of the same year in the village of Slap Pang in Battambang Province, Cambodia. The NPO has upheld the vision of "aiming to revitalize the land after landmines are cleared and to realize the peaceful and wealthy society where children always have smiles on their faces." Since its establishment, in addition to continually undertaking activities with a focus on not only support for physical infrastructure, such as building both general-purpose and agricultural roads in areas cleared of mines, but also soft infrastructure, including road maintenance/repair technology and agricultural technology so that people living in the area can become self-sufficient, GEJ has expanded the fields it provides support in.

Activity Topics

Start of rice farming training in three new villages

The NPO has worked with the Department of Agriculture in Battambang Province, a local partner, to conduct rice farming training in the three villages of Boursankrea, Korsvay, and Otakon, the area on which activities have been focused since FY2014. On account of various efforts including managing planting and regularly weeding and spraying organic fertilizer, it is expected that harvests will grow.

Harvesting rice at Otakon

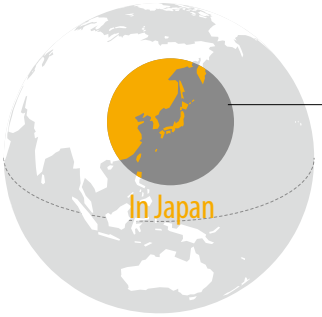
Harvest festival

Activity Topics

Holding the agricultural festival GEJ Festa in Cambodia

In August 2014, an agriculture cultural festival was held as an opportunity to announce the results of efforts to provide technical agricultural guidance and exchanges with children. Around 3,000 local residents participated in the festival, which included numerous events, such as agricultural product fair and direct sales, elementary school drawing contest, and exhibition of traditional Cambodian performing arts (dance) and Japanese drums.

Agricultural products entered in the fair



Japan

Generating customer satisfaction through integrated RSS operations

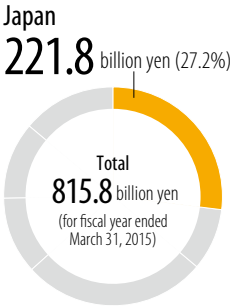
Summary of business conditions for FY2014 by region

Although Japan's economy gradually recovered for various reasons, including greater production and employment, demand for construction machinery in FY2014 was less than that in FY2013 because of a continuing contraction in new housing construction starts, declining public investment, and fall-off in demand following strong last-minute demand before exhaust gas regulations came into effect.

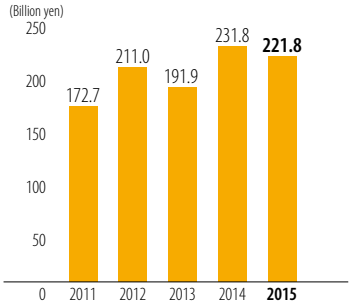
Under these conditions, having integrated rental, sales, and service (RSS) operations, Hitachi Construction Machinery Japan Co., Ltd. provided customers with the optimal proposals to increase efficiency and reduce the number of required workers and costs at construction sites. In this way, we have helped customers who do business with the various RSS departments grow and increased sales. Furthermore, we worked to increase sales of the new ZAXIS-5 series, which is in compliance with to stricter emission regulations and incorporate various improvements, including greater fuel and energy efficiency, safety, operability, and operator comfort.

We also worked to get customers to purchase ConSite, which provides various services to comprehensively support our customers' machinery, to achieve stable operation of machinery, and to increase sales of after-sales services.

Net sales composition ratio



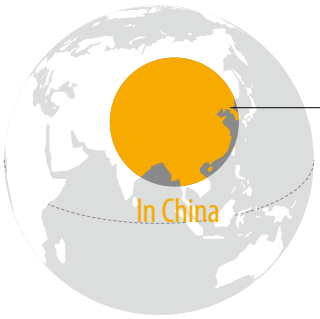
Net sales (for fiscal year ended March 31, 2015)



CSR Activities | Contributing to society through business and products

Contributing to greater work safety and productivity in areas rebuilding from disasters

In August 2014, Hiroshima City was hit by torrential rains that caused serious damage to people. This disaster resulted in about 580 thousand tons of waste material such as dirt, debris, and lumber. Hitachi Construction Machinery Japan Co., Ltd. collected information on the affected site and quickly made proposals related to operation methods and recycling products with an extensive operation record and researched and secured required rental machinery in order to contribute to the appropriate processing of disaster waste material. At the same time, because a full service system was established after the machinery started operating, equipment such as 27 units of rental machinery and the attachments, including hybrid hydraulic excavators, and recycling equipment, were operated by Konoike Construction Co., Ltd. JV(Joint Venture). Construction machinery is useful not only for building social infrastructure but also for increasing safety and productivity of operations at worksites undertaking disaster recovery. We are also contributing to society through social issue solution proposals based on one stop services including rentals, sales, and services (RSS) for overall construction sites, which can only be provided by Hitachi Construction Machinery Japan Co., Ltd.



China

Focusing on improving the sales skills of dealers utilizing ICT systems

Summary of business conditions for FY2014 by region

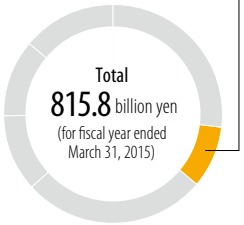
In China, under the policy of New Normal*1, real estate investment has slackened, growth in fixed asset investment in the manufacturing and mining sectors has stagnated, and economic growth has slowed. Even after the Chinese New Year, the period of peak demand for construction machinery, there was a dramatic year-on-year decline in demand for various reasons, including only minor government economic stimulus measures and delays in orders for new projects, resulting in a substantial contraction for the full fiscal year. Under these conditions, we continued to reinforce the cooperative relationship with dealers through the sales support system, services and parts sales management system, and Global e-Service system, supported efforts to improve sales skills at dealers and worked to expand sales of new assembled bodies and parts.

We also consolidated the parts warehouses scattered throughout Shanghai to a single location and outsourced logistics operation to the Hitachi Transport System Group, a 3PL*2, establishing the warehouse as a base for supplying spare parts to the almost 350 sales and service dealers in China. The warehouse also includes the parts recycling business that Hitachi Construction Machinery (Shanghai) has worked on since its founding, and efforts have been made to reinforce and expand reman parts of not only construction and civil engineering machinery but also mining machinery. We are also aiming to increase customer satisfaction by reducing maintenance costs. The training center is also located there, and efforts will be made to raise the sales skills of dealer staff, which involves promoting integrated sales and services and developing a training program.

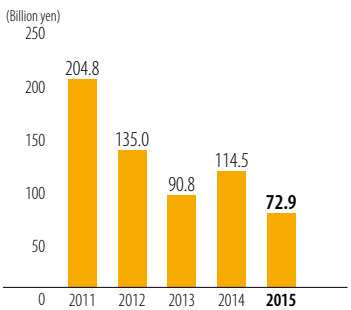
*1 New Normal refers to the policy espoused by the administration of Xi Jinping for China to strive to achieve stable growth, not pursue a high growth rate, under current economic conditions.
*2 3PL is an abbreviation of third party logistics and refers to companies outsourcing all their logistics operations to a third party.

Net sales composition ratio

China
72.9 billion yen (8.9%)



Net sales (for fiscal year ended March 31, 2015)



CSR Activities Environment conservation

Launch of a new project for the next 10 years on the 10th anniversary of the Horqin Desert afforestation activities

In 2014, Hitachi Construction Machinery (Shanghai) (HCS) celebrated the 10-year anniversary of its Horqin Desert afforestation activities, which have been undertaken since 2004. Through these activities the company has planted a 100,000 square meters of trees, referred to as Hitachi Construction Machinery Forest, protected them from unauthorized logging and wild animals, and succeeded in growing the trees tall. Planting trees in deserts lessens damage from blowing dust, improves the environment, and contributes to the continued creation of jobs as people living in nearby villages are asked to take care of the trees. As for activities during the coming 10 years, there were 26 new dealers, HCS partners, and work has been launched to turn 130,000 square meters of desert green by planting trees.

Asia & Oceania

Strengthening sales at dealers and expanding markets to new regions

Summary of business conditions for FY2014 by region

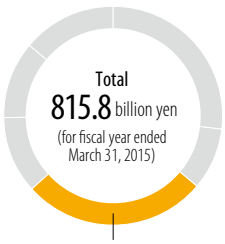
Demand for mining machinery in Indonesia and Australia, countries rich in natural resources, has remained weak since FY2013 on account of a collapse in the price of natural resources and natural resource development companies restraining investment. Demand for construction machinery also continued to decline in Indonesia, Thailand, Malaysia, and Australia.

Under these conditions, we worked to strengthen sales skills at dealers and expand sales through active use of the sales support system. In addition, even though demand for mining machinery remained weak, we worked to expand sales of our AC-series rigid dump trucks.

As overall demand remained weak in Asia and Oceania, there were signs of an economic recovery in India following the change of administration. Growth in demand for hydraulic excavators was flat, but demand for some infrastructure, such as that related to coal and quarrying, has been on a recovery trend. In this market environment, India-based Tata Hitachi Construction Machinery not only worked to reduce costs and improve quality but also expanded sales of its new models (GI model). Furthermore, the company fully launched exports of the GI model to the Middle East.

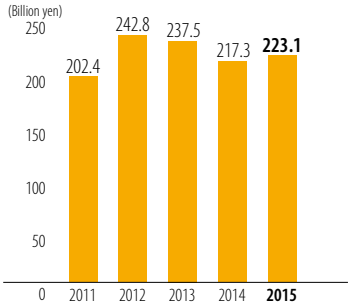
As for Myanmar, which is expected to see future growth, we are working to expand sales, mainly for infrastructure projects undertaken by foreign companies. In the Philippines, we also tried to capture machinery demand for agriculture and delivered the first ultra-large hydraulic excavator EX2600-6.

Net sales composition ratio



Asia & Oceania
223.1 billion yen (27.4%)

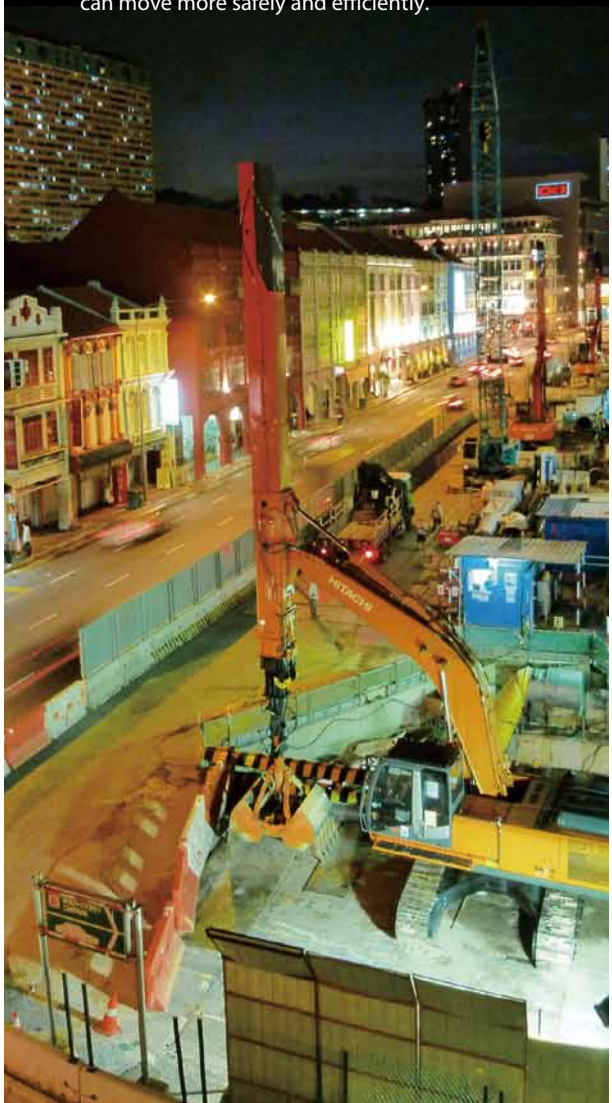
Net sales (for fiscal year ended March 31, 2015)



CSR Activities | Contributing to society through business and products

Contributing to the creation of a more convenient and pleasant life by laying track for the Singapore subway

Singapore, which has limited land, is systematically building public transportation in line with the government's long-term plan in order to respond to chronic traffic congestion and insufficient parking. Subway construction is moving forward in line with the long-term plan that extends to 2030. Hitachi Construction Machinery's hydraulic excavator, commonly called the "Chameleon," is being used for the construction. Just like the name suggests, this unique product has a telescopic arm, and it can efficiently remove dirt from not only the surface but also deep holes. We are contributing to the creation of a rich ASEAN region through the development of construction machinery that can move more safely and efficiently.



Europe

Focusing on expanding sales of environment-friendly construction machinery that meets European environmental regulations

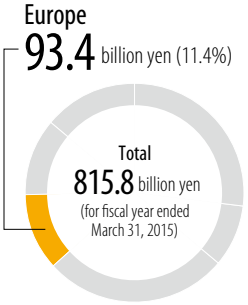
Summary of business conditions for FY2014 by region

Turning to economic conditions in Europe, UK's economy continues to recover, and even Germany's economy is slowly improving for various reasons including falling unemployment rate. Overall demand for construction machinery has increased in Europe, particularly Western Europe, driven by housing construction starts in the UK, but in the second half of FY2014, demand weakened in the UK, France, and other countries.

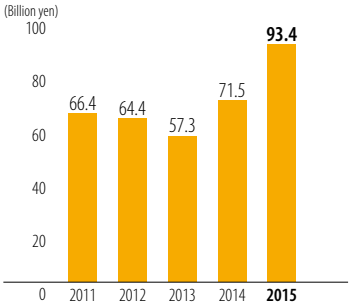
Under these conditions, the Hitachi Construction Machinery Group reinforced its support of dealers in the various countries and aggressively expanded sales of hydraulic excavators with a low fuel consumption and wheel loaders.

Hitachi Construction Machinery (Europe) (HCME) exhibited the latest hydraulic excavators and hybrid wheel loaders at INTERMAT 2015 (Paris), one of the three largest construction machinery exhibitions in the world held once every three years, and our products left a strong impression on visitors. HCME plans to consolidate the dealership network and expand our dealers' support system in order to increase our presence in Eastern Europe, where demand is trending upward.

Net sales composition ratio



Net sales (for fiscal year ended March 31, 2015)



CSR Activities | Development and sales of eco-products

Exhibiting at INTERMAT 2015, one of the three largest construction machinery exhibitions in the world

HCME exhibited various products including rigid dump trucks, road machinery, and super long front working machines, as well as the medium-size hydraulic excavator ZX300LC-6, which was exhibited for the first time at the exhibition, the hybrid wheel loader ZW220HYB-5B and the ZX350LCH-5G for Africa. Customers enjoyed the clever booth design, including the 4DX theater, in which the audience can feel the wind and experience smells, and our products left a strong impression.

Russia, CIS, Africa & Middle East

Raising customer satisfaction by strengthening the relationship among local dealers

Summary of business conditions for FY2014 by region

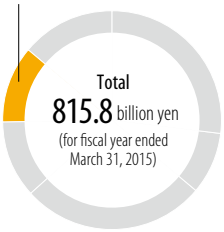
In Russia, demand for construction machinery slackened further for various reasons including the weaker ruble, inflation, and a decline in the price of crude oil. Amid this environment, we continued to support dealers through Hitachi Construction Machinery Eurasia Sales and worked to expand sales of construction and mining machinery. We established a mass-production system at the Russian plant, which was completed in January 2014, and started to ship products from the plant.

In Southern Africa, we reinforced sales and service, mainly for mining machinery, and strove to increase sales by establishing a dealership in Mozambique and reinforcing sales in the Republic of South Africa, where there is strong demand for hydraulic excavators. Furthermore, in Northwest Africa, we moved branch from Ghana to Morocco, further strengthened cooperation with dealers, and worked to expand sales.

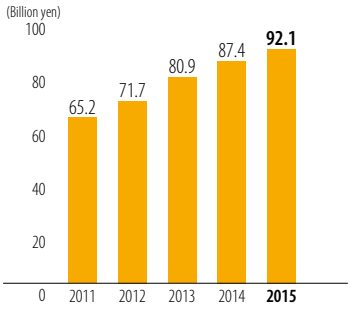
Demand for construction machinery in the Middle East increased overall from the previous fiscal year, because even though demand fell in Turkey, one of our main markets, as compared to the previous fiscal year for various reasons including the weaker Turkish lira and stagnant projects, there was strong demand for infrastructure in the gulf countries such as Saudi Arabia. Under these conditions, the focus was on expanding sales, particularly for infrastructure in Turkey and the gulf countries.

Net sales composition ratio

Russia, CIS, Africa & Middle East
92.1 billion yen (11.3%)



Net sales (for fiscal year ended March 31, 2015)



CSR Activities | Contributing to society through business and products

Wheel-type hydraulic excavator ZX210W-3F used to prepare land for cultivation in Azerbaijan

As for the Project for Improvement of Equipment for Amelioration and Irrigation (Phase 2), an official development assistance (ODA) project whose goal is to develop agriculture in Azerbaijan, we delivered 30 units of ZX210W-3F wheel-type hydraulic excavator, and the transfer ceremony was held in July 2014 at the project site. In the southern part of Azerbaijan, irrigation to lower the level of groundwater in agricultural areas is indispensable because not only is there little rainfall but the groundwater is also salty and reaches close to the surface. The wheel-type hydraulic excavator ZX210W-3F is used to excavate irrigation ditches.

The Americas

Strengthening our partnership with Deere & Company and creating a production and sales network

Summary of business conditions for FY2014 by region

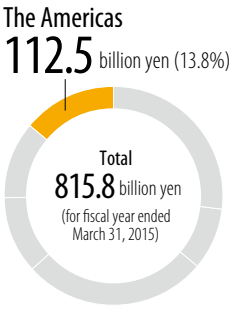
The US economy steadily recovered as a result of an increase in consumption and capital investment. In North America, a recovery in housing construction starts, increase in pipeline construction, and recovery in capital investment resulted in firm demand for construction machinery. On the other hand, in Central America and South America, construction machinery demand fell year on year from FY2013 for various reasons including stagnant infrastructure investment in Brazil, a major market. Furthermore, the low price for natural resources has resulted in a decline in demand for mining machinery throughout the Americas.

Under these conditions, we strove to expand sales of machinery models that complied with emission control regulations in North America in partnership with Deere & Company, to increase sales in Brazil, as we have built local production and sales systems in South America, and to raise our presence there.

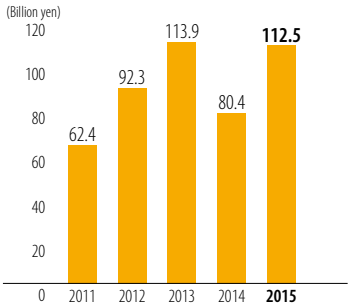
At the Brazil plant, our joint venture Deere-Hitachi Brazil, which launched production in 2013, we maintain an extremely high technical level by having 9 Brazilian technicians who worked at Hitachi Construction Machinery pass on to plant workers not only welding techniques but also our ideas on *MONOZUKURI* and quality.

* The following photo is of hydraulic excavators from the Brazil plant.

Net sales composition ratio



Net sales (for fiscal year ended March 31, 2015)



CSR Activities | Contributing to the local economy and passing on technical skills

Introducing the latest model of the ZAXIS-6 series hydraulic excavator, which is compliant with the Tier 4 Final regulation, the latest Engine Emission Regulation, to the North American market

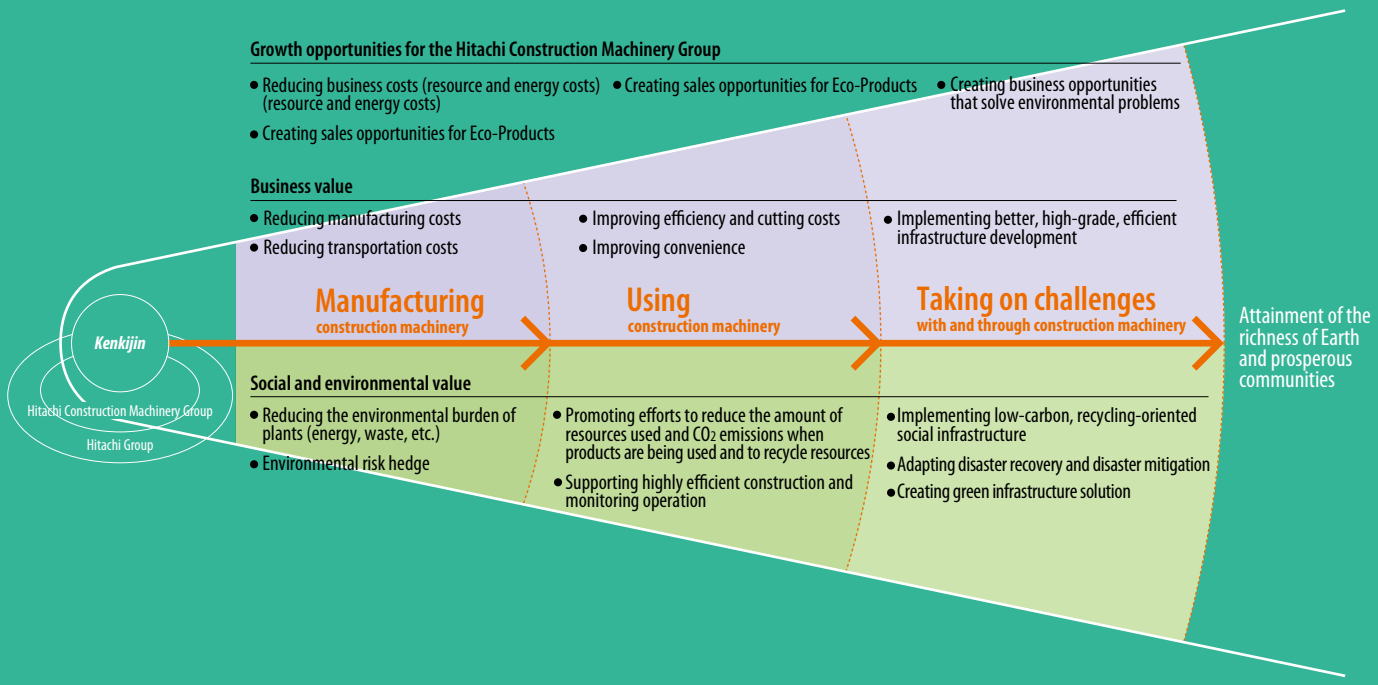
Engine Emission Regulation of construction machinery has gradually become stricter and stricter, and starting in 2014, Tier 4 Final was introduced as the final level of regulation. We moved forward with a model change for our hydraulic excavators in order to make the products compliant with these regulations, apply what we learned about market needs from surveys regarding the current model to the vehicles, and introduced the new ZAXIS-6 series to the market. The ZAXIS-6 series is expected to gradually go on sale in other areas after being introduced in the North American market.

Chapter 3

For the Earth

Transforming into a company that creates environment-conscious infrastructure through construction machinery and systems that meld leading environmental technology

The Hitachi Construction Machinery Group focuses on creating environmental value at not only the construction machinery manufacturing and use stages but also the challenge stage for resolving social issues using construction machinery. We will promote the development of social infrastructure that reduces carbon emissions and takes into consideration resource recycling and contribute to the creation of a sustainable society with our customers.

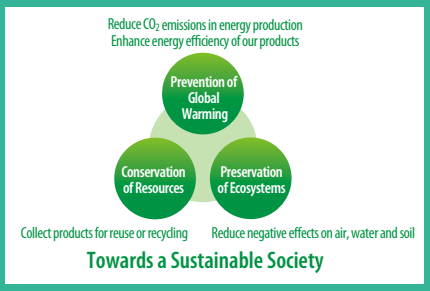


In order for companies to achieve sustainable growth, they must move forward with environmental/CSR management and business strategy in an integrated manner.

The Hitachi Construction Machinery Group is promoting the mid-term management plan GROW TOGETHER 2016 and environmental management in an integrated manner. Having created an environmental vision based on the three pillars "Prevention of Global Warming," "Conservation of Resources," and "Preservation of Ecosystems," we are working to reduce the environmental burden through the whole product lifecycle from developing/manufacturing products to after-sales service.

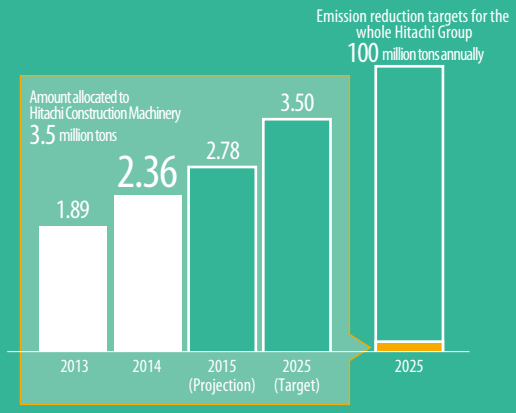
The Hitachi Group has set the Environmental Vision 2025, a long-term plan to help reduce annual CO_2 emissions by 100 million tons through all group products by FY2025, a concrete objective to mitigate global warming. As one part of these efforts, the Hitachi Construction Machinery Group has set the goal of reducing CO_2 emissions from its machinery during operation 3.5 million tons by FY2025 and is working to reduce CO_2 emissions through various efforts such as improving fuel efficiency of standard machinery, developing hybrid construction machinery, and researching the application of biodiesel fuels.

As the need for low-carbon, recycling-oriented sustainable social infrastructure grows throughout the world, we are trying to reinforce our environment-related creating shared value (CSV) activities that apply construction machinery solutions using environmental technology we have accumulated to the resolution of environmental and social issues

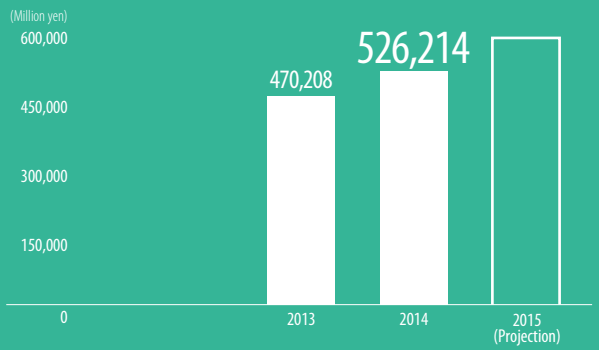


Key Figure

Reduction in CO_2 emissions from machinery during operation

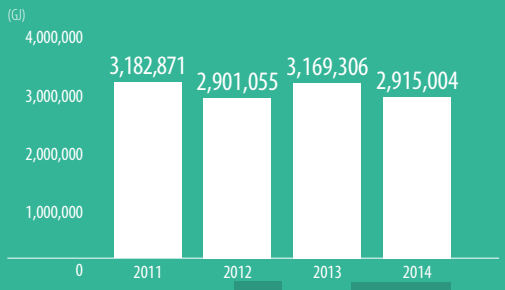


Sales of Eco-Products(environmentally conscious products)

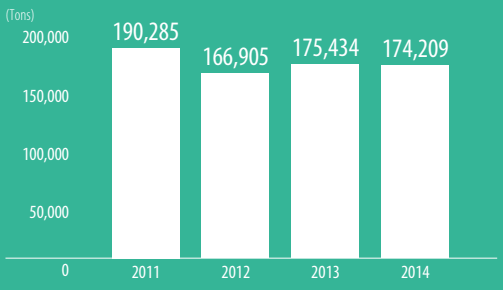


Sales of Eco-Products (environmentally conscious products) as percent of total product sales

Total energy input



CO_2 emissions



Feature

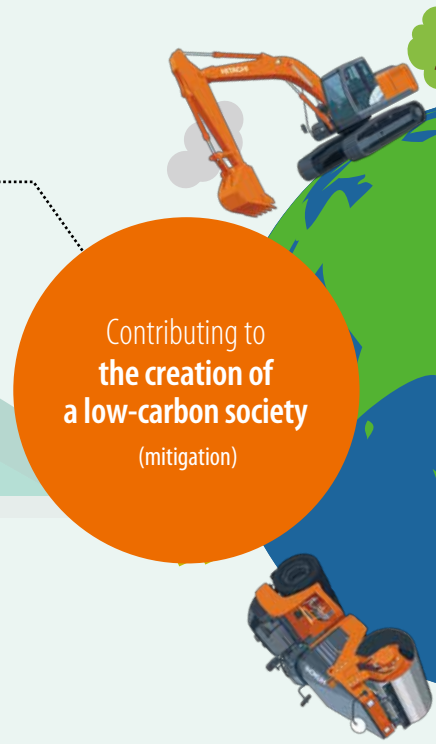
Strengthening Environment-Related CSV Activities

Creating a construction machinery business that contributes to solutions to environmental problems

In order to realize a sustainable global society, it is necessary to confront and overcome the global environmental issues that human society faces, such as global warming and resource/energy problems.

At the Hitachi Construction Machinery Group, we are reinforcing efforts to expand our environment-related CSV activities, centered on creating a low-carbon society (mitigation), developing a recycling-oriented society (recycling resources), and preventing, reducing damage from, and reconstruction after natural disasters (adapting to climate change). We are aiming to achieve further growth as a construction machinery manufacturer that contributes to the development of infrastructure that is friendly to the Earth.

The United Nations Intergovernmental Panel on Climate Change (IPCC) has reported that it is necessary to cut greenhouse gas emissions 40%–70% compared to 2010 levels by 2050 in order to limit the increase in global temperatures to no more than 2°C compared to before the industrial revolution. With this in mind, the Hitachi Construction Machinery Group is focusing on increasing energy efficiency through ICT and the environmental consciousness of products, the goal of which is to reduce the amount of energy machinery uses during operation by developing various products including eco-products and hybrid construction machinery. We are also striving to establish a construction machinery business that contributes to the creation of a low-carbon society through efforts such as research on the application of biofuels and emissions trading that makes use of carbon offsets, etc.



Activity example

Development of Eco-Products

We are working to switch all standard machinery, which account for the majority of product shipments, to eco-products and to develop hybrid construction machinery. In FY2014, sales of Eco-Products accounted for 91% of total sales.

Activity example

Research on biofuels

We are researching ways to apply carbon-neutral biofuels. We have tested the operation of hybrid hydraulic excavators that run on biofuels made from microalgae.

On account of rapid economic development, emerging countries are building and developing urban infrastructure. On the other hand, a large volume of waste is produced at infrastructure construction sites. With the goal of contributing to the development of a recycling-oriented society that makes effective use of waste as resources, the Hitachi Construction Machinery Group is not only focusing on developing demolition/recycling machinery to process waste generated when building and developing infrastructure but also providing recycling machinery, such as soil recyclers, and Hi-OSS resource recycling solutions that combine soil improvement with waste recycling. We support efforts to reduce the amount of resources used and recycle resources at construction sites.

Activity example

Contributions through demolition/ recycling machinery

We are focusing on the development of recycling machinery that does not treat by-products from construction/demolition sites, such as metals, soil, and lumber, as garbage, but contributes to the reuse of these valuable materials.

Activity example

Contributions through soil recyclers

We provide soil recyclers that recycles soil from construction sites, recycling machinery that recycles materials such as stones, lumber, and mixed wastes, and Hi-OSS*, which processes by-products at the worksite.

* Hitachi On-site Screening & Solution

As responding to the risk of natural disasters, such as major earthquakes, tsunamis, and torrential rains and super typhoons due to global warming has become a real problem, we have been focusing in recent years on the concept of resilience, the ability to adapt to and recover from natural disasters, which is one step beyond mitigating and adapting to global warming. The Hitachi Construction Machinery Group is reinforcing its business that contributes to disaster prevention and mitigation, with an eye on risks related to natural disasters. We support the construction of highly resilient urban infrastructure, which covers various activities such as the development of machinery and systems that contribute to the construction of not only preventive infrastructure related to droughts, flood control, and floods and but also recycling systems for rain water and sewage water; the development of technology to introduce robots; and the use of ICT.

Activity example

Support for recovery and reconstruction in areas hit by disasters

At the land preparation worksite for the new main urban area of Rikuzentakata City, Iwate, which sustained major damage from a tsunami, various types of heavy machinery, starting with ultra-large hydraulic excavators that excavate dirt for the land, are supporting reconstruction.

Activity example

Developing robots that can also be used for responding to disasters at nuclear power plants, etc.

We developed the small, twin-armed robotic heavy machinery ASTACO-SoRa in order to remove rubble in highly radioactive environments. The machinery can be used for various jobs since it has two arms like humans and the tool bits can be exchanged remotely.

* Joint product development with Hitachi Power Solutions Co., Ltd.

Reducing energy use and CO_2 emissions from machinery during operation

With a focus of preventing global warming, a major problem for the world, the Hitachi Group's Environmental Vision 2025 includes the goal of "helping to reduce annual CO_2 emissions by 100 million tons by FY2025 through improved Hitachi products and services." Having set its contribution to the reduction in CO_2 emissions from machinery during operation by FY2025 in line with this target, the Hitachi Construction Machinery Group is striving to develop and expand Eco-Products.

Reduced CO_2 emissions by machinery during operation 2.36 million tons

The Hitachi Construction Machinery Group has adopted the goal of reducing CO_2 emissions by machinery during operation 3.5 million tons annually compared to the reference year (FY2005) by FY2025. Improving fuel efficiency in our main products is an important issue in order to achieve that goal.

We have positioned reducing CO_2 emissions from machinery during operation as the most important issue, and our top goal is to increase the energy efficiency of our products. Because of this goal, we have moved forward with various efforts; in particular, for our hydraulic excavators, our main product, we have improved fuel efficiency about 20% through two model changes for the ZAXIS-3 series, which went on sale in 2006, and the ZAXIS-5 series, which was introduced in 2013.

In 2014, we launched efforts to commercialize and introduce the ZAXIS-6 series as the newest model compliant with the latest Engine Emission Regulation (Tier 4 Final) in North America. Starting in FY2015, we will move forward with efforts to further improve fuel efficiency by fully introducing the newest models into markets and further reducing CO_2 emissions from machinery during operation.

In addition, we are actively striving not only to improve fuel efficiency of standard machinery but also to improve and increase sales of hybrid construction machinery and electric/battery-powered construction machinery, and in FY2014, we developed the hybrid wheel loader ZW220HYB-5B.

On account of these efforts, we reduced CO_2 emissions from our machinery during operation 2.36 million tons as of the end of FY2014. As for our goal of reducing emissions 3.5 million tons by the end of FY2025, we are examining revising upward our reduction target because it looks as if we will achieve the target before FY2020.

In order to achieve these new targets, we will contribute to preventing global warming by increasing the percentage of total sales accounted for by eco-products and raising the company's presence in global markets.

Products used in estimating CO_2 emissions: six products

Mini excavators | Hydraulic excavators | Wheel loaders | Rigid dump trucks | Crawler cranes | Road machinery

Highlight in 2014

Developing the hybrid wheel loader ZW220HYB-5B

As for the introduction of hybrid construction machinery, the use of hybrid hydraulic excavators is spreading, but we were unable to mass produce hybrid wheel loaders.

We started to research hybrid wheel loaders from early on and built up related technology. Using this technology as a foundation, we developed the hybrid wheel loader ZW220HYB-5B with the help of power electronics technology possessed by the Hitachi Group.

With the ZW220HYB-5B, we not only increased power transmission efficiency by introducing a hybrid drive system but also reduced energy loss for the hydraulic system and normalized power output during excavating operation, which made it possible to reduce fuel consumption up to 31%* compared to the traditional ZW220.

It is expected that a hybrid system that makes use of electronic technology will have various benefits, such as further increasing fuel efficiency through advances in battery technology and achieving zero-emissions through the use of a fuel cell for the engine. We are aiming to supply construction machinery that possesses greater energy efficiency through synergies with the Hitachi Group companies.

* Results of fuel consumption during operation test based on Hitachi Construction Machinery's in-house evaluation standards.

Hybrid wheel loader ZW220HYB-5B

Achieving 500 hours of operation during trial operation using algae-based biofuels

Carbon-neutral biofuels are drawing attention as an alternative for fossil fuels, and among the biofuels, Hitachi Construction Machinery is focusing on biofuels derived from microalgae (algae-based biofuels), which can reduce reliance on fossil fuels without impacting the food supply. After comparing fuel properties for running diesel engines and the state of development of algae-based biofuels produced by more than 10 companies throughout the world, we selected the fuel produced by U.S.-based Solazyme, Inc.

For the operation test, we received the cooperation of Maeda Road Construction Co., Ltd. (headquartered in Shinagawa Ward, Tokyo), which is ardently working to resolve environmental problems through biofuels, and between September and November 2013, the test was conducted at Maeda Road Construction's Koriyama Composite Materials Plant, located in Koriyama City, Fukushima. During the test, it was possible to operate a hybrid hydraulic excavator using 100% algae-based biofuels for 500 hours, a world's first*.

A performance evaluation and disassembly evaluation conducted in March 2014 revealed that the same machine performance was obtained with algae-based biofuels as with diesel fuels and that there were no signs of engine deterioration even after 500 hours of operation. We will continue to conduct various researches on the use of fuels in construction machinery.

* As of April 11, 2014, research by Hitachi Construction Machinery

Hybrid hydraulic excavator ZH200 was used for the test. The operator from a partner company of Maeda Road Construction Co., Ltd., who was responsible for driving the vehicle, commented, "There is no loss in operability, and it provides the same power as the diesel version."

Reducing environmental burden due to business activities

At the Hitachi Construction Machinery Group, we created the Environment Policy Division as an intragroup organization that builds and operates environmental management systems at each base and ascertains the environmental burden caused by business activities and countermeasures undertaken at each base. Established in 1991 in order to promote organized environmental preservation activities in the Hitachi Construction Machinery Group, the Environment Policy Division works to increase environmental performance throughout the Group by supporting activities at each base.

Introducing a system to make electrical power visible in order to not only reduce the environmental burden but also raise energy efficiency

The Hitachi Construction Machinery Group is moving forward with integrated efforts to achieve the targets in the environmental action plan. It is necessary to promptly run through the PDCA cycle*, in which problems at each Group company and plant are ascertained and improvement measures implemented.

In order to ascertain the environmental burden of each company and plant and support efforts to reduce that burden, related data for each Group company (energy, VOCs, water, and waste) is collected monthly and managed. This makes it possible to run through the PDCA cycle each month and link it to flexible efforts. We also hold a monthly WEB meeting, through which we share efforts being made at each company and plant throughout the Group. Horizontally expanding environmental activities through this meeting contributes to reducing the environmental burden.

Furthermore, we actively strive to undertake exchanges of staff responsible for environmental activities within the Group as one way to improve our environmental performance. In addition to conducting environmental audits, members of the Environment Policy Division at Hitachi Construction Machinery Head Office sometimes visit Group companies and share information and observe environmental activities and sometimes environmental managers at overseas Group companies are invited to Japan, where they undertake various activities such as attending Environment Policy Division meetings, observing Japanese plants, and exchanging opinions on environmental management.

Exchange with Chinese manufacturing companies Hitachi Construction Machinery (China) and Hefei Rijian Shearing

In FY2014, we started to introduce a system to make electrical power visible, which was jointly developed with Hitachi, Ltd., in order to independently increase energy productivity. The system will be introduced in the five plants located in Ibaraki (Tsuchiura Works, Kasumigaura Works, Ryugasaki Works, Hitachinaka Works, and Hitachinaka-Rinko Works) one after another. We now ascertain the state of power use, including energy consumption for the overall production line and standby power for machinery processing parts, which we expect will lead to machinery operation and production schedules without waste in the future. Furthermore, we are considering introducing the system to major overseas production bases and moving forward with adapting the system to overseas production using management technology developed in Japan. Thus we are promoting plans to make the system introduction as a global effort.

* A cycle for managing efforts to continually improve operations by repeatedly undertaking the four stages of plan, do, check, and action.

Energy conservation activity example

Introducing air conditioning that employs excavator radiators

We are working to introduce radiator air conditioning that uses radiators on hydraulic excavators as air-conditioning equipment for plants. In 2014, we developed a test model and confirmed that the system reduces energy consumption 84% for cooling and 54% for heating by making use of unused energy. We plan on introducing these in the various plants.

Radiator air-conditioning device

Example of activities to reduce VOCs

Expanding the use of high-solid paints

Hitachi Construction Machinery has gradually expanded the use of high-solid paints that contribute to VOC reductions as solids (non-volatile portion) make up a greater proportion than general solvent-based paints. If VOC emissions forFY2006 are set as 100, we reduced FY2014 emissions 28%.

In FY2015, we are examining using the paints for the front section and will be the first in the industry to use high-solid paints on the whole body of construction machinery. We expect to reduce FY2015 VOC emissions 32%versus FY2006.

Applying high-solid paints

Example of activities to reduce water use and waste

Reducing frequency that circulating water is changed and cutting water and waste

In the painting booth, "circulating water" is used to prevent paint from scattering in the air. This circulating water contains paint sludge of scattered paints, and we have tested the use of paint detackifier to condense and separate this paint sludge. Doing so makes it possible to change the water once every sixth months compared to the typical once every three months, which reduces water use. In FY2015, we will move forward with tests to determine setting the conditions for each plant.

In addition, with the paint detackifier, we can reduce sludge emissions through paint sludge filtration and cut waste material.

Highlight in 2014

Hitachi Construction Machinery Tierra's Osaka factory certified as Eco-factory Select

Out of consideration of the risk of earthquakes and fires, Hitachi Construction Machinery Tierra Osaka factory, which is responsible for manufacturing mini excavators, was transferred to Daito City, Osaka, in March 2013, because the site of the former factory is surrounded by apartment complexes and is located in an area with wooden houses. When the factory was transferred, painting, assembly, and machine processing processes were streamlined and the factory was reborn as one specializing in plating production process for arms and blades.

Taking advance of the transfer, preparations were launched to obtain ISO 14001 environmental management system certification, and year-long environmental activities were started under the direction of Environment Management Secretariat in line with Hitachi Construction Machinery's environmental action plan. This resulted in major benefits in terms of the environmental burden—if one compares the environmental burden in FY2013 with that of the former factory, energy efficiency increased 25%, industrial waste was reduced 60% (from an annual volume of 130 tons to 40 tons), water use was reduced 40% (from an annual volume of 4,300 m3 to 2,140 m3) compared to FY2005 on a production volume basic units basis. VOCs were not considered since the painting process was eliminated. In addition to these benefits, the full introduction of electronic manifests was highly praised, and in FY2014, the factory was certified as a Hitachi Group Eco-factory Select. This was a first for the Hitachi Construction Machinery Group.

Hitachi Construction Machinery Tierra is taking on the challenge of getting its Shiga factory also certified as an Eco-factory Select in FY2015. The company is aiming to get both its two production bases, the Osaka and Shiga factories, certified.

Exterior view of the Osaka factory and crystal shield for certified eco-factories

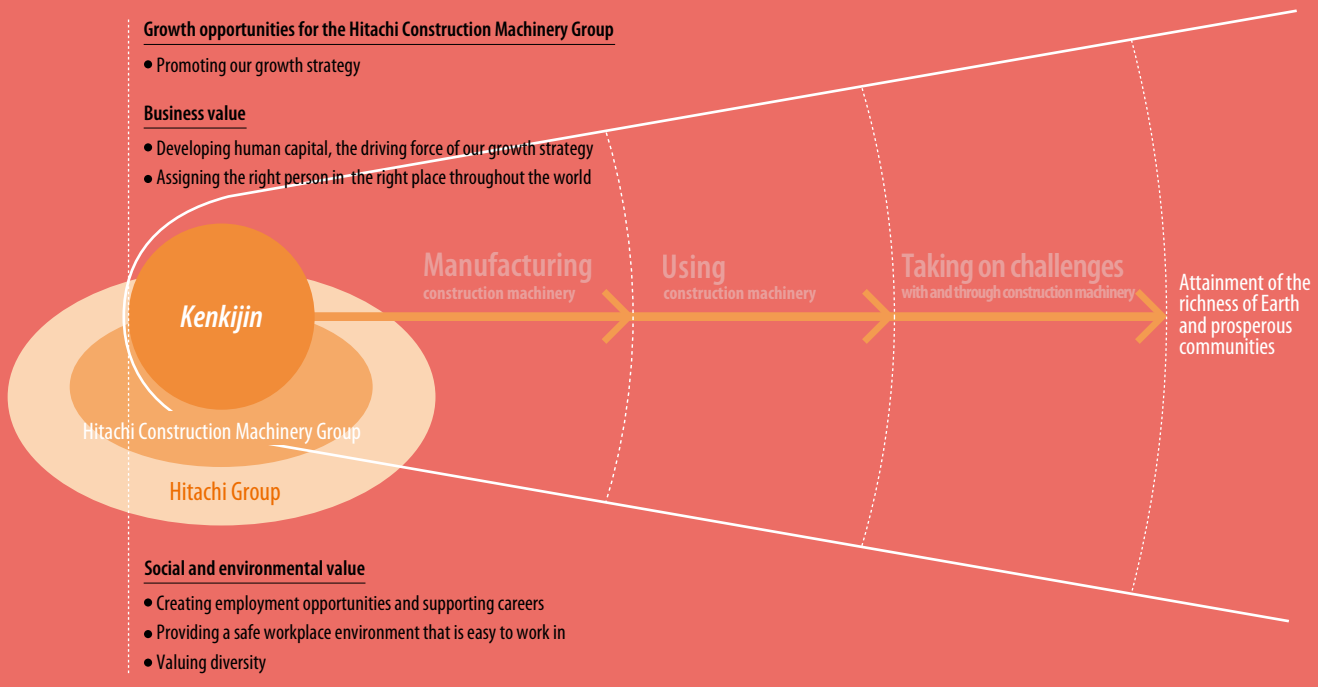
Mini excavators

Chapter 4

For People

We maximize the potential of human capital by sharing values, developing global human resources, and promoting diversity.

For the Hitachi Construction Machinery Group, which is aiming to become a global player, each and every one of our more than 20,000 employees worldwide is an irreplaceable asset. In order to support the growth of our employees as well as achieve growth as a company, we are pushing forward with efforts on various fronts, including fostering a corporate culture based on the *Kenkijin* Spirit and elevating the skills of our human resources.



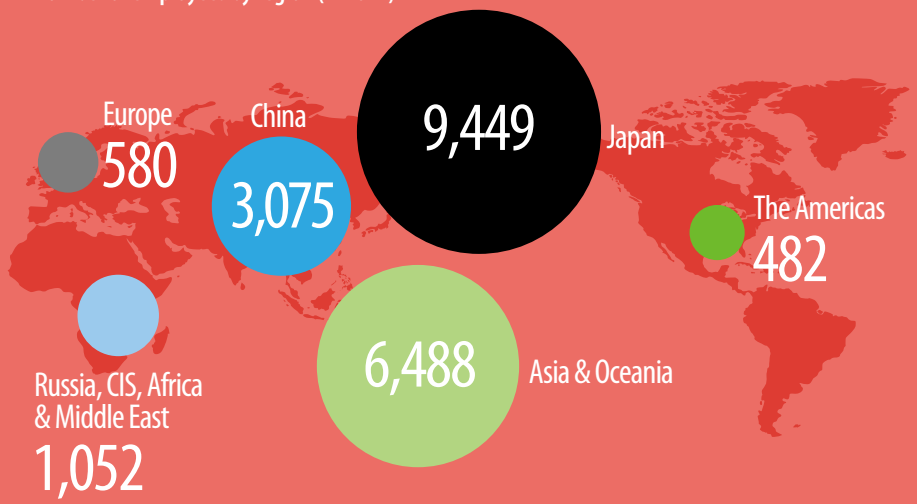
At the Hitachi Construction Machinery Group, by eliciting understanding and spreading the *Kenkijin* Spirit that constitutes our shared values and guiding principles, we are striving to foster a corporate culture in which each of our employees throughout the world adopts the perspective of customers and is capable of taking on the challenge of creating technology, products, and services with value. Through an employee satisfaction survey that we administer once a year, we measure the degree to which the *Kenkijin* Spirit has been understood and spread. In the survey conducted in FY2014, about 80% of our employees identified with the *Kenkijin* Spirit.

In addition to formulating a global human capital strategy centered on succession plans and pushing forward with efforts to expand employee education opportunities and delegate authority to Group companies, we are working on assigning the right person in the right place globally.

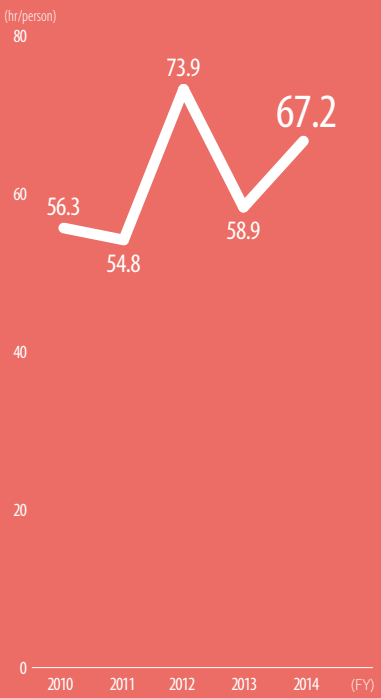
Moreover, given of the absolute need for companies to leverage the abilities of personnel with various values and ways of thinking in order to create new value, the Hitachi Construction Machinery Group has positioned the promotion of diversity as a key management issue, and is working towards promoting support for career development for female employees and personnel exchanges between global bases of operation, among other efforts. In FY2011, we launched initiatives for creating a foundation for diversity and completed diversity training for management-level employees of Hitachi Construction Machinery and domestic Group companies by FY2014.

Key Figure

Number of employees by region (FY2014)



Training time per employee



* Conducted by the Career Development Center for Hitachi Construction Machinery and Japanese Group companies.

Feature

Human Capital Management for Driving the Force of Our Growth Strategy

Spreading the *Kenkijin* Spirit and developing global human capitals

In order for Hitachi Construction Machinery to become a truly global player, we need to promptly meet the needs of our customers in areas throughout the world. This makes human resource development efforts for our national staff indispensable. Developing human resources is the starting point for *MONOZUKURI* (manufacturing by skilled craftsmen), and the foundation of those efforts is the *Kenkijin* Spirit, the shared values and guiding principles for the Group. Human resource development at Hitachi Construction Machinery in all areas throughout the world begins with understanding and spreading the *Kenkijin* Spirit.

In Singapore

Launch of the global expansion of the MSSP* dealers training program

MSSP was initiated in April 2011 as part of our efforts to reinforce the sales capability of our dealers, one of the measures under "Go Together 2013," our previous mid-term management plan. We first implemented the program in Asia and Oceania countries. From there, we successively expanded the area of implementation. Starting in 2014, for the purpose of further advancing these initiatives, we created a network hub-model implementation body with Hitachi Construction Machinery Asia and Pacific as its central entity, and will accelerate the expansion of that body globally as we move forward.

* MSSP: Marketing Sales Support Program

In Zambia

5S and QC initiatives through *kaizen* activities

Starting in FY2014, Hitachi Construction Machinery Zambia commenced *kaizen* activities as a member of the Kaizen Institute of Zambia (KIZ)*1 and engaged in 5S activities*2 as its initial endeavor. Five teams formed across the whole company competed for activity results over a four-month period under the leadership of KIZ, and the team recognized as producing the best results announced them at the Zambia Kaizen Forum. Teams recognized for producing excellent results were also awarded the Hitachi Construction Machinery Zambia President's Prize. In FY2015, we will continue to engage in 5S activities as well as tackle new initiatives for raising efficiency.

*1 Kaizen Institute of Zambia (KIZ): Organization established by the Zambian government to raise the competitiveness of domestic industries in Zambia.

*2 5S: Stands for the five basic precepts of "Sorting, Setting in order, Systematic cleaning, Standardizing and Sustaining." This term is used in discussions of maintaining and improving workplace environments within the manufacturing, service and other industries.

In Australia

Reinforcing development of mining human resources

The Hitachi Construction Machinery (Australia) Brisbane Corporate Support Group is an important base of operation responsible for the core of Hitachi Construction Machinery's mining business. The company provides various forms of support and conducts numerous development verification tests for mining machinery that is in operation 24 hours a day, 7 days a week. An example of this support is the assembly and modification of large trucks and the recycling of main components. In order to cultivate human resources in this field, which requires advanced specialization, we conduct long-term training for staff at overseas bases of operation related to mining. In FY2014, we took in four employees from the Philippines and two from Turkey.

In Japan

Holding the 11th Hitachi Construction Machinery Group International Skills Competition

In November 2014, we held the 11th International Skills Competition* at the Kasumigaura Institute. This fiscal year, there were a total of 70 participants: 26 from our bases of operation in China, India, Indonesia, the Netherlands, the US, and Russia, and 44 Japanese employees. It was the first time for members from our Russian bases of operation to participate. This time, robot welding was added as a new open event. Robot welding has taken root at each base of operation due to the fact that we have provided associated technical guidance and suggestions, particularly at Tsuchiura Works, which constitutes our mother plant. As such, we plan on adding it as an official event starting in FY2015.

* International Skills Competition: Competition held every year in which engineers in service at our plants compete for skills in six fields (welding, coating, assembly, measurement, transportation, and machining) in order to enhance their skills and share their techniques.

In India

Actively promoting *kaizen* activities

We engage in *kaizen* activities as part of our operations at India-based Tata Hitachi Construction Machinery. At the Jamshedpur factory, there were as many as 1,416 activity reports during the first quarter of FY2014 alone. The company also established the new "*Kaizen* Prize" in order to continuously conduct activities and generate results. A prize in each of three fields (safety, quality, and productivity and cost reductions) is awarded once a year.

The right person in the right places globally

The Hitachi Construction Machinery Group is endeavoring to expand education opportunities aimed at training global human capital who try to actively communicate on the world stage and boost their own presence. We are also pushing forward with efforts to delegate authority to Group companies and strengthen local governance.

Creating a framework to implement our succession plan and underpin the preservation, continuation and forward development of our businesses

At the Hitachi Construction Machinery Group, we are implementing a succession plan as a part of our global human capital strateg

Succession plan, which we initially implemented in 2011, is currently operated on a consolidated basis, and covers all Group employees in each company and department with a position equivalent to section manager or higher. Under this plan, the management of each company/department identifies the requirements of the duties overseen by members of that company/department, and creates and implements a medium- and long-term plan for establishing who should succeed the current personnel in charge or provide training in areas where the successors to undertake those duties have shortcomings.

Furthermore, by using our succession plan to make the work responsibilities and career of each employee visible across the entire organization, we will share information throughout our organization on human resource utilization processes and make strategic use of those resources.

The implementation framework for our global human capital strategies contains two bodies. One of them is the Global HR Steering Committee, which commenced its activities in 2013 and is responsible for devising and planning strategy. It convenes twice a year for that purpose. Members include representatives from five regions (China; Asia, Oceania and India; Europe, Russia, CIS and the Middle East; the Americas; and Africa) and related parties from the Human Resources Department at Hitachi Construction Machinery's Head Office. The other is the Global HR Conference, which has been held once a year since 2012 for the purpose of providing a venue to

Outline of Global Human Capital Strategy

employees responsible for personnel affairs at each overseas Group company for engaging in discussion, ascertaining needs, and forming a consensus. This conference is also responsible for approving the content planned and devised by the Global HR Steering Committee.

In FY2014, we initiated human capital measures under our mid-term management plan entitled "GROW TOGETHER 2016," and in addition to addressing the formulation of a global human capital policy in particular, we tackled the improvement of the various measures implemented since 2010. In April 2015, the third Global HR Conference was held at the Hitachi Construction Machinery Head Office. Sixteen people from 11 countries attended the conference, where they discussed challenges to overcome in order to achieve the targets set forth in the current mid-term management plan, and formulated an action plan.

Future plans call for the implementation of initiatives aimed at our "2020 VISION" based on that action plan.

3rd Global HR Conference

Highlight in 2014

Actively accepting human resources from overseas Group companies

In implementing our succession plan, it is absolutely necessary that we develop successors. With this in mind, various departments in the Hitachi Construction Machinery Group currently accept personnel from overseas Group companies.

These efforts were fully launched in 1996, and to date, close to 700 such employees have worked in Japan. As of June 2015, 72 employees from overseas Group companies are working in Japan (* This number does not include technical trainees.).

The main objectives of this initiative are (i) to foster understanding of operations at Hitachi Construction Machinery and (ii) to improve communication through building a human network. We believe that in the future, human resources with this experience will become executives at their respective Group companies, which in turn will lead to people with the same *Kenkijin* values as us presiding over our global business management.

Employees from overseas Group companies working at the Tsuchiura Works

Foreign national promoted to General Manager of the Oceania Business Division within the Marketing Division

At the Hitachi Construction Machinery Group, where we promote the assignment of the right person in the right places globally, a foreign national was appointed General Manager of the Oceania Business Division for the first time in April 2015.

David Harvey, who was born in New Zealand, is an Australian national. He joined Hitachi Construction Machinery (Australia) (HCA) in 1995 and become President of the company in 2011. He has skillfully and actively worked to improve business performance, reduce the company's environmental burden, enhance the company's image, and improve its work environment. Through these endeavors, he has facilitated improvements in productivity and employee motivation, which has yielded improvements in the level of service provided to customers.

Message from David Harvey, General Manager of the Oceania Business Division

At HCA, we encourage communication and teamwork and provide solutions while endlessly endeavoring to meet the needs of our customers. We have also poured energy into promoting diversity, starting with the actualization of our female employees. Promoting diversity not only leads to greater employee morale but also the creation of new ideas and the acquisition of broad perspectives and experience. The driving force behind this is selecting the best person for each role, which is the responsibility of a leader. In the future, I hope to continue provide greater benefits to all stakeholders while paying heed to feedback from a greater number of people.

David Harvey

Diversity management and protecting and respecting human rights

In order to generate innovation and create new value, it is necessary for companies to harness the abilities of human resources that possess diverse values and ideas by promoting diversity. In Japan, therefore, we make various efforts, such as supporting career development for female employees and promoting personnel exchanges among global bases. Mutual respect for and understanding among people with different nationalities, sex, cultures, traditions, etc., is the foundation of diversity.

Developing diversity, which has been positioned as a key management issue

At the Hitachi Construction Machinery Group, we are working to get a PDCA cycle for promoting diversity to take root, and these efforts have included establishing the Diversity Promotion Group in April 2011 and confirming progress in activities and the promotion plan for the next fiscal year by holding a Diversity Committee meeting once a year since then.

In FY2014, Hitachi Construction Machinery created its own diversity training material and conducted e-learning. Furthermore, we held the fifth diversity workshop (for female employees) and the second work-life balance management seminar.

In the future, we will assign a diversity promotion manager in each department and Japanese Group company and promote activities.

Fifth diversity workshop was held in March 2015. Two people from the Hitachi Construction Machinery Head Office and seven from the Tsuchiura Works took part in the workshop, and various issues that fall under the theme of "to work in a manner appropriate for oneself and create better work and human relations" were discussed. Participants expressed numerous opinions, such as, "I want to always try to energetically do my work by seeing what drives the other people."

Work-life balance management lecture was held in January 2015. We invited independent instructors to provide easy-to-understand explanations of issues that fall under the topic of "to balance work and nursing," such as what nursing entails, systems necessary for nursing, and the ideal environment and workplace. It was a good opportunity for attendees to obtain proper information on nursing and awareness of the need to prepare.

Highlight in 2014

Holding a participation-type event at which participants could experience different cultures at the Hitachi Construction Machinery Festival in Tsuchiura

On November 9, 2014, we opened a cross-cultural experience area at the Hitachi Construction Machinery Festival in Tsuchiura, which was held at the Tsuchiura Works, and conducted various events.

Around 1,500 local residents and family members visited the area, which was operated by support staff for overseas trainees and employees from Hitachi Construction Machinery Group companies, and were able to experience the global expansion of Hitachi Construction Machinery. We plan on holding this event in FY2015, too.

Basic philosophy on respect for and system to promote human rights

The basic policies on respect for human rights are given in the Hitachi Construction Machinery Group Codes of Conduct. In response to creation of the Hitachi Group Human Rights Policy in May 2013, we established the Hitachi Construction Machinery Group Human Rights Policy, a more detailed activity policy, in March 2014.

The Hitachi Group Human Rights Policy clearly stipulates that the human rights included in the International Bill of Human Rights*1 and International Labour Organization's Declaration on Fundamental Principles and Rights at Work are minimum human rights, that human rights due diligence*2 based on the United Nation's Guiding Principles on Business and Human Rights*3 and appropriate education for employees will be conducted, that the Hitachi Group will comply with the laws and regulations of countries and regions it conducts business activities in, and that if there is an inconsistency between the human rights demanded by international society and laws within a particular country, the Group will pursue a method to respect the international principle of human rights.

Having established the Hitachi Group Human Rights Due Diligence Guidelines in March 2015, we are moving forward with efforts to implement human rights due diligence. In line with the Hitachi Group's general principles regarding human rights, the Hitachi Construction Machinery Group is focusing efforts on promoting human rights education and preventing child labor and forced labor.

As for the organization to promote these activities, we have established the Human Rights Issue Countermeasure Committee, which the Executive Officer and Human Capital Division General Manager serves as chair of and the CSR Promotion Department acts as the secretariat for, and are working to spread an awareness of respecting human rights throughout the company.

We respect the human rights of all stakeholders, including customers, suppliers, employees, etc., based on these policies.

*1 International Bill of Human Rights: The collective name for the International Covenants on Human Rights and Universal Declaration of Human Rights adopted by the United Nations General Assembly.

*2 United Nations' Guiding Principles on Business and Human Rights: "Report of the Special Representative of the Secretary-General (John Ruggie (at that time)) on the issue of human rights and transnational corporations and other business enterprises."

*3 Human rights due diligence: This refers to evaluating and responding to the impact that business has on human rights and continually verifying and disclosing the results of measures to prevent, mitigate, or provide aid for the negative impact.

Human rights education and training

There is common human rights training within the Hitachi Group, which is based on the Hitachi Construction Machinery Codes of Conduct and the Hitachi Construction Machinery Group Human Rights Policy.

At Hitachi Construction Machinery, human rights are discussed in the basic education provided by the Career Development Center, and education on human rights is included in stratified training for new employees, newly appointed supervisors, and section managers.

In FY2014, in addition to the stratified training discussed above, human rights education was conducted in the context of harassment during compliance training for managers conducted by the Compliance Promotion Center, and 510 people took part in the training.

In FY2015 and thereafter, we will expand compliance training to general employees, and there are plans to repeatedly conduct a compliance awareness survey and follow-up training once every four years. In addition, in line with the Hitachi Group's Basic Policy on Human Rights Education and Training, there are plans to (i) further deepen understanding of and spread the Hitachi Group Human Rights Policy; (ii) continually conduct stratified training; and (iii) provide employees with a proper awareness and understanding of sexual minorities, LGBT*

* LGBT: It is an acronym for lesbian, gay, bi-sexual, and transgender and is one of the general terms for sexual minorities.

Preventing child labor and forced labor

In the "Respect of Human Rights" section of the Hitachi Construction Machinery Group Codes of Conduct, we declare that the Group will not employ child labor (work from children who are younger than the minimum work age) and forced labor (labor against the will of the employee) and will not purchase materials from companies that make use of child labor or forced labor.

In the CSR Supply Chain Guidebook for suppliers, we clearly prohibit the forced labor, inhumane treatment, and child labor and demand that suppliers adhere to these rules.

Corporate Governance

Our basic philosophy

The Hitachi Construction Machinery Group firmly recognizes that it acts not only to improve its business performance but also to serve as a useful corporate citizen in society. Our commitment to fair and transparent corporate behavior underpins our corporate governance and is a responsibility to our stakeholders. We believe this commitment will in turn lead to greater corporate value and improved shareholder value.

In addition, we share a basic corporate philosophy and brand, as well as a basic management policy, as a member of the group led by Hitachi Ltd., our parent company. Hitachi Construction Machinery's own corporate codes of conduct, based on that of Hitachi Ltd., guides our basic policy for corporate governance, and serves as the foundation for the Hitachi brand and our CSR activities.

Corporate governance system

The Hitachi Construction Machinery Group has adopted a corporate organizational system based on a committee governance structure, as defined in the Companies Act, with the aims of ensuring highly fair and transparent management while building an operational system that facilitates the prompt and sound execution of management strategy. We have greatly strengthened our system of corporate governance through this separation of management oversight from business operations.

The Board of Directors comprises ten (10) Directors including five (5) Outside Directors (which means four (4) males and one (1) female). The Chief Executive Officer and Executive Officers make operational decisions and execute the operations in accordance with the company's basic management policies and approvals established by the Board of Directors. The Board of Directors addresses the responsibilities and duties, orders of supervision and authority, and the mutual relationships of the Executive Officers.

An Executive Committee (to be held twice a month, in principle), comprising all the Executive Officers is established as a consultative organ for the Chief Executive Officer and President in making business decisions. The Executive Committee controls important matters related to the management of the company's operations.

Ensuring constant independence from the parent company

Since two outside Directors are from Hitachi Ltd., the parent company may exerts influence on decisions on our management policy by expressing their views at Board meetings. On the other hand, with the exception of the two aforementioned Directors, Board of Directors consists of another three outside Directors designated as an independent outside Director, and five Directors with no concurrent relationships with Hitachi Ltd. or companies in the Hitachi Group. This ensures that we are able to make our own management decisions independently from the parent company.

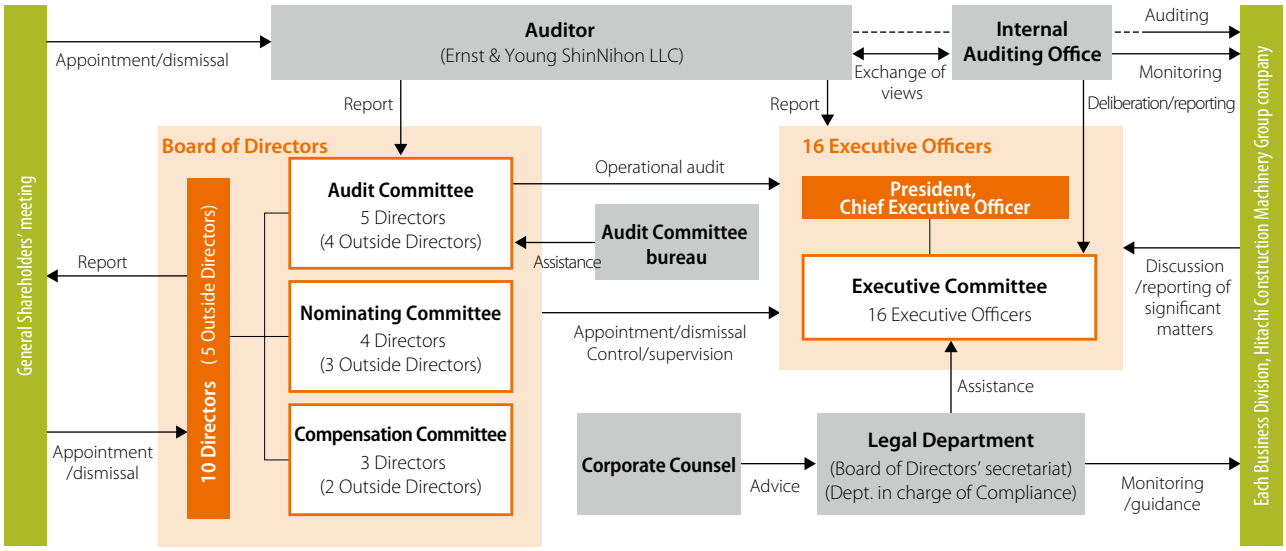
Calculating executives' compensation (performance-linked compensation system)

Hitachi Construction Machinery's Compensation Committee sets the policy for deciding the amount of compensation for the company's board members and executive officers in accordance with regulations stipulated by the Companies Act regarding companies with a committee governance structure. The Compensation Committee sets compensation standards for board members and executive officers commensurate with the capabilities and responsibilities required and after consideration of remuneration levels at other companies.

Compensation to board members consists of a "monthly fee," which is the basic compensation for full- or part-time service plus an amount calculated in accordance with the director's position, and a "year-end allowance," which is based on an amount multiplied by a constant coefficient.

Compensation to executive officers consists of a "monthly fee," which is determined reflecting an assessment of the basic compensation in accordance with the officer's position, and "performance linked compensation," which is determined in line with the executive officer's performance and results achieved in the officer's responsible duties. For board members concurrently serving as executive officers, no compensation is paid for services provided as a director of the board.

Corporate Governance System As of June 22, 2015



Directors and Executive Officers As of June 22, 2015

Directors

Takashi Kawamura
Chairman of the Board

Shigeru Azuhata
Outside Director

Haruyuki Toyama
Outside Director

Junko Hirakawa
Outside Director

Hideto Mitamura
Outside Director

Osamu Okada
Director

Tetsuo Katsurayama
Director

Koji Sumioka
Director

Yuichi Tsujimoto
Director

Akihiko Hiraoka
Director

Executive Officers

President, Chief Executive Officer	**Yuichi Tsujimoto**
Senior Vice President, Representative Executive Officer	**Koji Sumioka**
Senior Vice President, Executive Officer	**Akihiko Hiraoka**
Vice President and Executive Officer	**Kenji Oota**
Vice President and Executive Officer	**Toshihiro Oono**
Vice President and Executive Officer	**Yasushi Ochiai**
Vice President and Executive Officer	**Tetsuo Katsurayama**
Executive Officer	**Takaharu Ikeda**
Executive Officer	**Morio Kadoya**
Executive Officer	**Genroku Sugiyama**
Executive Officer	**Michifumi Tabuchi**
Executive Officer	**Masato Tamaki**
Executive Officer	**Hisashi Hasegawa**
Executive Officer	**Kotarou Hirano**
Executive Officer	**Hideshi Fukumoto**
Executive Officer	**Tadashi Motoi**

Note: Executive officers are listed in the Japanese syllabic order.

Compliance

Promoting compliance activities

The Hitachi Construction Machinery Group defines compliance as conformity to laws and regulations, the basis of corporate activities, and actions in accordance with corporate ethics. We are actively embarking on activities to improve our level of compliance.

Specifically, we repeatedly carry out awareness surveys targeting all employees at Hitachi Construction Machinery and our domestic group companies, and implement training in line with the results of these surveys. In this manner, we are able to assess our level of compliance and carry out improvements.

We also worked to promote a common understanding of the reporting system by distributing to Hitachi Construction Machinery and Group companies in Japan compliance hotline system posters and reminding them of the issue during the FY2014 Corporate Ethics Month.

Promoting compliance training

At the Hitachi Construction Machinery Group, we implement stratified compliance training and various sales training programs for new employees, newly appointed supervisors and managers. We also provide supplier training. In addition, we provide individual training programs as a follow up to our compliance awareness survey. In FY2014, more than 1,300 employees partook in this training.

At our overseas group companies, we have been deploying compliance training in line with our HCM Global Basics (HGB)* training for national staff in FY2011. In FY2014, we have planned a training program for management at all overseas Group companies and are going to conduct compliance training for them during FY2015.

Reflecting the opinions of parties who have already undergone the training in Singapore and Malaysia, we not only conduct the training but also supply a Compliance Activity Support Tool Package, which staff at each company can make use of after the training, and continually try to improve the level of practical compliance even at overseas Group companies.

Compliance training

* Training program designed to train national staff. The three main themes of this training are *Kenkijin* Spirit, compliance, and CSR.

Establishing a global compliance hotline

We established a compliance "whistleblowing" hotline with the goal of quickly identifying and properly handling compliance issues.

In FY2014, there were 28 cases reported, including consultations and questions regarding the organizational system and measures. Cooperation with relevant departments was carried out as needed and the issues were resolved.

We have also established an independent contact (global alert line) that can handle various languages and is available to overseas Group employees. During FY2014, nine inquires/reports were made, and when necessary, problems were resolved in cooperation with related departments.

We will continue to inform employees of these two reporting systems.

Flow for global alert line

Risk management

Our basic policy

Facing risks such as accidents, natural disasters, breaches of laws and regulations, pollution, product liability lawsuits, leaks of personal information, and so on is unavoidable in corporate activities. As such, at the Hitachi Construction Machinery Group, we are focusing on risk management through our activities led by the Compliance and Risk Management Division.

Based on the assumption that "risks can certainly become actualized" and the understanding that all possible risks must be clarified and countermeasures taken to minimize the damage caused by such risks, we have identified the following risks and measures to counter them.

Definition of Risk

Risk is defined as the possibility of incidents, accidents, or other problems that may cause loss or damage directly or indirectly to the Hitachi Construction Machinery Group's business, employees or their families or to people with some connection with the Group.

Categories of Risk

1. Damage to people: Death, Injury, or the possibility of such.
2. Damage to assets: Breakage or destruction of the company assets, hindrance in production or sales, etc. caused by such breakage or destruction, or the possibility of such.
3. Financial damage: Payment of compensation, lost profits, or the possibility of such.
4. Loss of trust: Loss of trust in the company, our products or employees, etc., thereby damaging the company's image, or the possibility of such.
5. Breach of laws and regulations: Breach of laws and regulations, or the possibility of such.
6. Breach of ethics: Acts contravening company ethics, or the possibility of such.

Measures against Risks

We are implementing the following measures against risks in accordance with the procedures set by the Compliance and Risk Management Division.

1. When a risk arises, we will implement initial measures immediately. We will promptly ascertain the risk level and decide the range of the people to be informed, according to the severity of the risk.
2. We will make constant efforts to raise the awareness of employees and other relevant persons to ensure that they recognize risks as risks, thoroughly understand the importance of compliance, proactively work to prevent the occurrence of risks and scandals, and take proper measures to cope with risks when they occur.
3. When a risk arises, or there is the possibility of such, no matter how minor the risk is, we will immediately report the matter to a superior or to the Compliance Promotion Department manager.
4. We will regularly check risk potentialities and take measures to prevent the occurrence of each risk.
5. We will always endeavor to maintain good relations with the local community (including police stations, labor standards inspection offices, fire stations, public employment security offices, local residents, etc.).

Establishing global risk management

The fortification of the risk management system for the overall Group is crucial for the Hitachi Construction Machinery Group to grow as a global company. To fulfill its manufacturer accountability, the Hitachi Construction Machinery Group is developing Business Continuity Plans (BCPs) and strengthening its Business Continuity Management (BCM) to minimize the impact to business activities from risks that arise from events such as natural disasters, and to attain the quickest possible recovery. We are also working to sustain our supply chain.

In FY2014, we reinforced global emergency medical support system for all Hitachi Construction Machinery Group employees in order to further strengthen global risk management. We also strengthened countermeasures by compiling the results of the risk response capability survey conducted last year, sharing the results throughout the Group companies, and confirming points that each company should work on.

In FY2015, we plan on not only increasing employees' awareness of risk management but also reinforcing company-wide management system.

CSR Management

In line with the Hitachi Group policy, the Hitachi Construction Machinery Group established the Group CSR Policy in May 2005 and the CSR objectives in March 2006 in order to clarify the policies related to and direction of its CSR activities and has tried to strengthen CSR management by running through the PDCA cycle. We then established the new CSR Goal, Guideline and 9 Agendas in FY2014 and have launched new efforts in FY2015 in order to win greater trust from society and achieve sustainable growth. CSR 9 Agendas are based on ISO 26000, a global standard for corporate social responsibility.

CSR Activity Goal

Based on Basic Ideologies and Corporate Vision and keeping in mind the importance of the following three points, the Hitachi Construction Machinery Group will strive to realize a sustainable society by obtaining a proper understanding of international society's expectations related to society and environment through communication with various stakeholders and integrate those expectations in our management.

1. CSR and environmental initiatives that contribute to solving social issues
2. Governance that realizes sustainable management
3. Communication that fosters mutual understanding with stakeholders

CSR Activity Guidelines

1. Properly recognize social responsibility (Recognize)
2. Identify relevant issues, establish priority to address the issues, and practice CSR activities (Identify, Prioritize and Act)
3. Review and improve CSR activities through proactive communication and stakeholders engagement, and embed sense of social responsibility throughout the organization. (Review and Improve)

CSR Activity 9 Agendas

1. Recognition of Social Responsibility
2. Organizational Governance
3. Human Rights
4. Labor Practice
5. The Environment
6. Fair Operating Practice
7. Customers (Customer Issue)
8. Community Involvement and Development
9. Review and Improvement of CSR Activities

We are moving forward with efforts to identify material issues* in line with the new CSR management.

* Material issues: Important issues that should be identified for effective management in terms of both the environment and society so that important business resources can be effectively allocated.

Financial Section | Ten-year Financial History

Hitachi Construction Machinery and Consolidated Subsidiaries
Fiscal years ended March 31

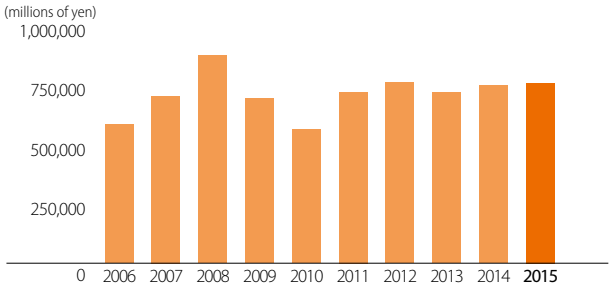
Note: Since the Company has adopted International Financial Reporting Standards (IFRS) since March 31, 2015, financial information in Financial section from P.60 is prepared in accordance with IFRS, while Ten-Year Financial History in P.57-59 is presented in accordance with Japanese Generally Accepted Accounting Principles (J-GAAP) in order to secure comparability.

Financial Highlights (J-GAAP)

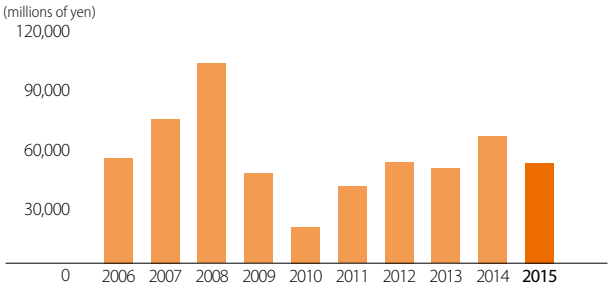
	2015	2014	2013	2012
For the year				
Net sales	815,792	802,988	772,355	817,143
Operating income	54,345	69,163	51,496	54,837
Net income before income taxes and minority interests	51,777	52,775	45,763	50,129
Net income	22,945	28,939	23,464	23,036
At year-end				
Total assets	1,047,872	1,087,191	1,099,901	1,086,116
Working capital	313,018	271,977	286,564	232,252
Shareholders' equity	394,711	383,355	361,874	345,689
Interest-bearing debt	277,005	363,411	393,102	388,904
Per share data (yen)				
Net income	107.95	136.24	110.77	108.88
Diluted net income	107.94	136.20	110.75	108.86
Net assets	1,975.73	1,827.59	1,704.34	1,522.86
Cash dividends (declared)	60.00	50.00	40.00	30.00
Other indicators				
Return on net sales (%)	2.8	3.6	3.0	2.8
Return on equity (%)	5.7	7.7	6.9	7.3
Equity ratio (%)	40.1	35.7	32.8	29.7
Price/earning ratio (times)	19.47	14.59	18.31	16.82

* Previously, 12 consolidated subsidiaries with different settlement dates than that of the parent company were accounted for based on the fiscal year consolidated financial statements for each of these companies because the difference between the settlement dates for these subsidiaries and the consolidated settlement date was within three months. However, with quarterly reporting becoming legally mandatory, beginning in the fiscal year ended March 31, 2008, HCM changed its method of consolidation on the financial statements by making provisional account settlements for the 12 subsidiaries on the consolidated settlement date. This change was made for the purpose of unifying the settlement dates of the parent company and the aforementioned consolidated subsidiaries and for ensuring appropriate disclosure of consolidated financial information.

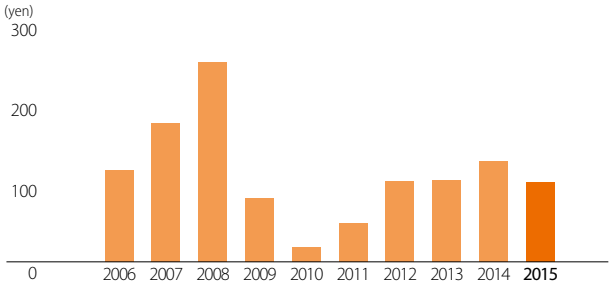
Net sales



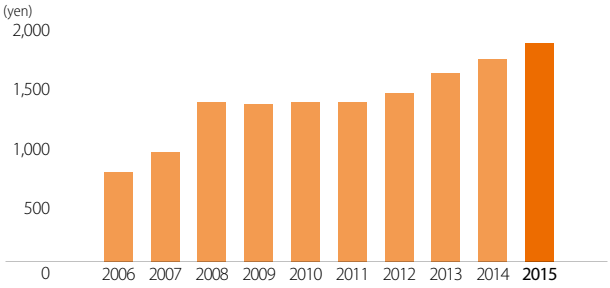
Operating income



Net income per share



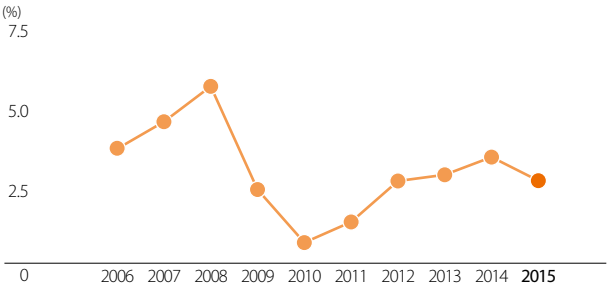
Net assets per share



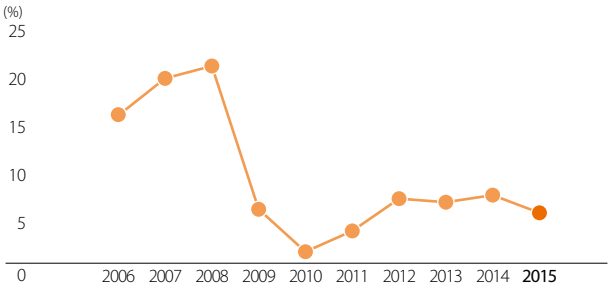
Unit: millions of yen (excluding per share data)

2011	2010	2009	2008	2007	2006
773,769	605,788	744,167	940,537	756,453	626,457
41,511	19,669	48,836	108,458	78,352	57,177
35,745	18,333	44,142	100,564	70,081	46,795
11,088	4,019	18,253	55,985	36,502	24,223
944,370	883,047	841,353	833,096	655,326	552,341
248,870	207,948	124,398	155,901	98,891	99,213
327,496	319,520	311,430	310,747	184,750	157,173
327,768	307,754	300,626	190,650	165,910	152,953
52.44	19.33	85.79	271.00	187.43	124.37
52.41	19.32	85.72	270.23	186.81	124.00
1,447.52	1,441.73	1,422.54	1,446.55	987.56	807.17
20.00	10.00	44.00	42.00	28.00	18.00
1.4	0.7	2.5	6.0	4.8	3.9
3.6	1.3	6.1	22.3	20.9	16.8
32.4	34.5	34.9	37.1	29.4	28.5
39.72	114.28	14.79	9.21	17.02	24.93

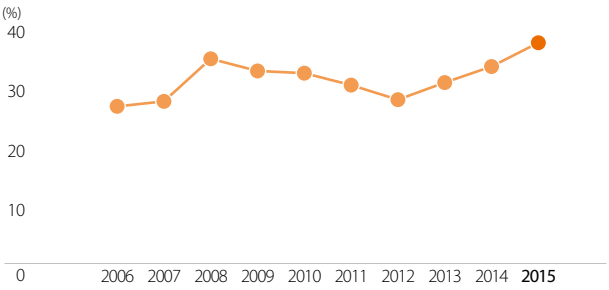
Return on net sales



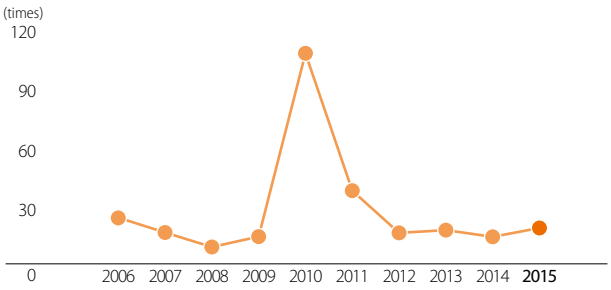
Return on equity



Equity ratio



Price/earning ratio



Business Performance

In the international economy during the consolidated fiscal year under review (April 1, 2014 to March 31, 2015), the US economy has steadily recovered underpinned by increased consumption and capital investment; the Japanese economy also maintained a gradual recovery underpinned by revived production and improvement in the employment situation. In Europe, the UK economy continued to recover, and the German economy has gradually been restored by a decrease of the unemployment rate. In Russia, the economy turned downward due to the fall in crude oil prices, etc. In China, despite the government policy named the "New Normal", the growth rate is declining due to decelerated fixed asset investment in the sectors of real estate, manufacturing and mining. In India, the economy showed a sign of recovery after the regime change; however, the economy in Southeast Asia as a whole remained stagnant.

With respect to the construction machinery market, mainly for hydraulic excavators, demand in Japan has decreased from the previous fiscal year as a reaction to last-minute demand in anticipation of new emissions regulations. In North America, demand has expanded due to increased capital investment. Demand in Europe has also expanded underpinned by housing-related investments in the UK, etc. On the other hand, demand in China has declined significantly, primarily due to the decrease in real estate investment trends and the increase in inventory of coal and steel, etc. Moreover, the demand in Southeast Asia has also declined significantly, mainly in Indonesia, Thailand, and Malaysia.

As for the mining machinery market, demand for mining machinery in regions such as the Americas, Indonesia, Australia, and Russia remains sluggish due to the price reduction of resources and investment restraint by resource companies.

Under these circumstances, the HCM Group made efforts to establish global management support scheme, increase its market share, lower the costs, and improve business efficiency to secure profits.

As for construction machinery, we had a global launch of the new service menu called "ConSite," which provides comprehensive support to the customers for their machines, and we have been expanding our parts and services operation. In Japan, we introduced new-model machinery that responds to the emissions regulations and achieves higher fuel-efficiency, better safety, advanced operating performance, and better riding comfort of the operator. Furthermore, we enhanced the consistency of our unique "RSS" (Rental, Sales, and Service) operations to increase orders and customer satisfaction. We expanded our initiatives to establish a global production and supply system and strove to further enhance the sales capabilities and after-sales service of our dealers.

For mining machinery, we strove to expand the lineup of our rigid dump trucks' AC-3 series, which features the advanced vehicle body stability assist function. Moreover, we are bringing together the strengths of the entire Hitachi Group to establish a substantially advanced customer support system, which includes mine operation management system provision and cross-company initiatives combining the expertise of both infrastructure management and IT for the mine operation's optimization.

Principles Regarding Appropriation of Earnings and Dividends for the Year under Review and the Fiscal Year Ending March 31, 2016

To establish a solid position in global construction machinery markets, HCM will maintain and strengthen its financial structure and work to bolster its internal reserves while considering implementation plans for upfront investments, including investments for technology development and facilities based on medium- and long-term business strategies. At the same time, HCM will pay dividends linked to its consolidated business results in accordance with a policy of maintaining stable dividends, with a target payout ratio of at least 20%.

With the aim of enabling the execution of a flexible capital policy, HCM will acquire treasury shares in consideration of necessity, financial conditions, and stock price movement.

At the Meeting of the Board of Directors held on May 22, 2015, a resolution was approved for cash dividends per share of ¥30 for the fiscal year ended March 31, 2015 with the same day as the record date. As a result, cash dividends for the entire fiscal year ended March 31, 2015 amounted to ¥60 per share.

As for dividends for the fiscal year ending March 2016, we aim to pay ¥30 per share for interim dividends and ¥30 per share for year-end dividends -a total of ¥60 per share annually.

(1) Consolidated financial statements

1) Consolidated statements of financial position

Millions of yen

	As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
Assets			
Current assets			
Cash and cash equivalents (note 19)	¥ 66,622	¥ 53,672	¥ 51,433
Trade receivables (notes 5 and 20)	248,858	248,396	231,473
Inventories (notes 7 and 21)	314,723	321,153	313,488
Other financial assets (note 20)	19,512	29,412	32,053
Other current assets	18,610	10,460	10,519
Total current assets	668,325	663,093	638,966
Non-current assets			
Property, plant and equipment (notes 8 and 21)	269,440	285,513	281,326
Intangible assets (note 9)	18,223	13,018	9,972
Goodwill (note 9)	8,675	8,646	9,590
Investments accounted for using the equity method	18,031	23,369	31,913
Trade receivables (notes 5 and 20)	49,166	50,744	30,089
Deferred tax asset (note 10)	19,073	16,783	18,331
Other financial assets (note 20)	28,753	30,145	31,110
Other non-current assets	6,725	9,803	13,376
Total non-current assets	418,086	438,021	425,707
Total assets	¥1,086,411	¥1,101,114	¥1,064,673
Liabilities			
Current liabilities			
Trade and other payables (notes 11 and 20)	¥ 222,650	¥ 209,936	¥ 210,345
Bonds and borrowings (note 20)	192,821	219,758	137,094
Income tax payables (note 10)	14,143	8,206	7,626
Other financial liabilities (note 20)	12,360	11,442	8,722
Other current liabilities	5,133	5,388	5,273
Total current liabilities	447,107	454,730	369,060
Non-current liabilities			
Trade and other payables (notes 11 and 20)	11,802	19,331	20,091
Bonds and borrowings (note 20)	200,162	151,542	150,579
Retirement and severance benefit (note 12)	13,901	12,505	13,446
Deferred tax liability (note 10)	396	195	9,483
Other financial liabilities (note 20)	808	280	194
Other non-current liabilities	5,938	6,578	3,918
Total non-current liabilities	233,007	190,431	197,711
Total liabilities	680,114	645,161	566,771
Equity			
Equity attributable to owners of the parent			
Common stock (note 13)	¥ 81,577	¥ 81,577	¥ 81,577
Capital surplus (note 13)	83,903	84,296	84,315
Retained earnings (note 13)	185,780	211,978	226,332
Accumulated other comprehensive income (note 14)	3,728	22,390	42,159
Treasury stock, at cost (note 13)	(3,982)	(3,237)	(3,156)
Total Equity attributable to owners of the parent	351,006	397,004	431,227
Non-controlling interests	55,291	58,949	66,675
Total equity	406,297	455,953	497,902
Total liabilities and equity	¥1,086,411	¥1,101,114	¥1,064,673

See accompanying notes to consolidated financial statements.

2) Consolidated statements of income

Years ended March 31, 2014 and 2015

Millions of yen

	2014	2015
Revenue (note 4)	¥802,988	**¥815,792**
Cost of sales	(572,523)	**(597,156)**
Gross profit	230,465	**218,636**
Selling, general and administrative expenses	(154,261)	**(156,717)**
Other income (note 16)	6,475	**4,496**
Other expenses (note 16)	(7,816)	**(3,284)**
Operating profit	74,863	**63,131**
Financial income (note 17)	4,226	**4,675**
Financial expenses (note 17)	(19,080)	**(10,307)**
Share of profits (losses) of investments accounted for using the equity method	243	**1,454**
Income before income taxes	60,252	**58,953**
Income taxes (note 10)	(18,276)	**(28,697)**
Net income	¥41,976	**¥30,256**
Net income attributable to:		
Owners of the parent	35,747	**26,023**
Non-controlling interests	6,229	**4,233**
Total net income	¥41,976	**¥30,256**
EPS attributable to owners of the parent		
Net income per share(Basic) (yen) (note 18)	¥168.30	**¥122.44**
Net income per share (Diluted) (yen) (note 18)	168.24	**122.42**

3) Consolidated statements of comprehensive income

Years ended March 31, 2014 and 2015

Millions of yen

	2014	2015
Net income	¥41,976	**¥30,256**
Other comprehensive income		
Items that cannot be reclassified into net income		
Net gains and losses from financial assets measured at fair value through OCI (notes 14 and 20)	824	**603**
Remeasurements of defined benefit obligations (notes 12 and 14)	688	**(369)**
Other comprehensive income of equity method associates (note 14)	3	**(151)**
Items that can be reclassified into net income		
Foreign currency translation adjustments (note 14)	14,707	**24,640**
Cash flow hedges (notes 14 and 20)	1,909	**121**
Other comprehensive income of equity method associates (note 14)	3,495	**1,896**
Other comprehensive income, net of taxes	21,626	**26,740**
Comprehensive income	¥63,602	**¥56,996**
Comprehensive income attributable to:		
Owners of the parent	¥54,409	**¥45,782**
Non-controlling interests	9,193	**11,214**

See accompanying notes to consolidated financial statements.

4) Consolidated statements of changes in equity

Year ended March 31, 2014

Millions of yen

	Equity attributable to owners of the Company					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasure-ments of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of year	¥81,577	¥83,903	¥185,780	¥ -	¥6,050	¥(2,322)
Net income			35,747			
Other comprehensive income				700	837	2,013
Comprehensive income	-	-	35,747	700	837	2,013
Acquisition of treasury stock (note 13)						
Sale of treasury stock (note 13)		393				
Increase/decrease by share exchange (note 13)						
Dividends to stockholders of the Company (note 15)			(9,549)			
Gains/losses on change in equity						
Transfer to retained earnings						
Other increase/decrease						
Transaction with owners	-	393	(9,549)	-	-	-
Balance at end of year	¥81,577	¥84,296	¥211,978	¥700	¥6,887	¥(309)

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	Foreign currency translation adjustments	Total				
Balance at beginning of year	¥ -	¥ 3,728	¥(3,982)	¥351,006	¥55,291	¥406,297
Net income		-		35,747	6,229	41,976
Other comprehensive income	15,112	18,662		18,662	2,964	21,626
Comprehensive income	15,112	18,662	-	54,409	9,193	63,602
Acquisition of treasury stock (note 13)		-	(6)	(6)		(6)
Sale of treasury stock (note 13)		-	170	563		563
Increase/decrease by share exchange (note 13)		-	581	581		581
Dividends to stockholders of the Company (note 15)		-		(9,549)	(3,857)	(13,406)
Gains/losses on change in equity		-		-	(1,678)	(1,678)
Transfer to retained earnings		-		-		-
Other increase/decrease		-		-		-
Transaction with owners	-	-	745	(8,411)	(5,535)	(13,946)
Balance at end of year	¥15,112	¥22,390	¥(3,237)	¥397,004	¥58,949	¥455,953

See accompanying notes to consolidated financial statements.

Year ended March 31, 2015

Millions of yen

	Equity attributable to owners of the Company					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of year	¥81,577	¥84,296	¥211,978	¥700	¥6,887	¥(309)
Net income			26,023			
Other comprehensive income				(515)	623	162
Comprehensive income	-	-	26,023	(515)	623	162
Acquisition of treasury stock (note 13)						
Sale of treasury stock (note 13)		19				
Increase/decrease by share exchange (note 13)						
Dividends to stockholders of the Company (note 15)			(11,689)			
Gains/losses on change in equity						30
Transfer to retained earnings			20		(20)	
Other increase/decrease						
Transaction with owners	-	19	(11,669)	-	(20)	30
Balance at end of year	¥81,577	¥84,315	¥226,332	¥185	¥7,490	¥(117)

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	Foreign currency translation adjustments	Total				
Balance at beginning of year	¥15,112	¥22,390	¥(3,237)	¥397,004	¥58,949	¥455,953
Net income		-		26,023	4,233	30,256
Other comprehensive income	19,489	19,759		19,759	6,981	26,740
Comprehensive income	19,489	19,759	-	45,782	11,214	56,996
Acquisition of treasury stock (note 13)		-	(4)	(4)		(4)
Sale of treasury stock (note 13)		-	85	104		104
Increase/decrease by share exchange (note 13)		-		-		-
Dividends to stockholders of the Company (note 15)		-		(11,689)	(3,418)	(15,107)
Gains/losses on change in equity		30		30	(70)	(40)
Transfer to retained earnings		(20)		-		-
Other increase/decrease		-		-		-
Transaction with owners	-	10	81	(11,559)	(3,488)	(15,047)
Balance at end of year	¥34,601	¥42,159	¥(3,156)	¥431,227	¥66,675	¥497,902

See accompanying notes to consolidated financial statements.

5) Consolidated statements of cash flows

Years ended March 31, 2014 and 2015

Millions of yen

	2014	2015
Net income	¥41,976	¥30,256
Depreciation	30,815	31,531
Amortization of intangible asset	5,773	5,885
Impairment losses	3,408	487
Income tax expense	18,276	28,697
Equity in net earnings of associates	(243)	(1,454)
Gain (loss) on sales of property, plant and equipment	(2,546)	220
Financial income	(4,226)	(4,675)
Financial expense	19,080	10,307
(Increase) decrease in accounts and notes receivable	(3,622)	10,502
(Increase) decrease in lease receivables	22,600	21,731
(Increase) decrease in inventories	3,627	16,643
Increase (decrease) in accounts and notes payable	(12,850)	(8,469)
Increase (decrease) in provisions and retirement benefit obligations	(576)	1,033
Other	(16,796)	(13,320)
Subtotal	104,696	129,374
Interest received	3,837	4,055
Dividends received	365	485
Interest paid	(9,229)	(8,033)
Income tax paid	(19,385)	(19,652)
Net cash provided by operating activities	80,284	106,229
Capital expenditures	(38,737)	(15,931)
Proceeds from sale of property, plant and equipment	3,875	1,930
Acquisition of intangible assets	(3,022)	(2,746)
Acquisition of investments in securities and other financial assets (including investments in associates)	(3,725)	(3,046)
Sales of investments in securities and other financial assets (including investments in associates)	(855)	2,023
Other	1,292	(206)
Net cash used in investing activities	(41,172)	(17,976)
Increase (decrease) in short-term borrowings, net	(29,638)	(50,495)
Proceeds from long-term borrowings and bonds	39,412	60,486
Payments on long-term borrowings and bonds	(47,852)	(86,603)
Payments on lease payables	(4,964)	(4,817)
Dividends paid to owners of the parent (note 15)	(9,556)	(11,676)
Dividends paid to non-controlling interests	(3,276)	(3,289)
Other	180	100
Net cash used in financing activities	(55,694)	(96,294)
Effect of exchange rate changes on cash and cash equivalents	3,632	5,802
Net increase (decrease) in cash and cash equivalents	(12,950)	(2,239)
Cash and cash equivalents at beginning of year (note 19)	66,622	53,672
Cash and cash equivalents at end of year (note 19)	¥53,672	¥51,433

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Nature of Operations

Hitachi Construction Machinery Co., Ltd. (the Company) is a corporation domiciled in Japan, whose shares are listed on the Tokyo Stock Exchange. The accompanying consolidated financial statements comprise the Company, its consolidated subsidiaries and the Company's interests in associates and joint ventures. The Company's and its consolidated subsidiaries' businesses include manufacturing, sales, services and rental of construction machinery.

(2) Basis of Presentation

As the Company meets the requirements of a "Specified Company" pursuant to Article 1-2 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, the consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as permitted by the provision of Article 93 of the Ordinance. The Company's fiscal year begins on April 1 and ends on March 31 of the following calendar year. These are the Company's first consolidated financial statements prepared in accordance with IFRS. The date of transition to IFRS (the transition date) is April 1, 2013, and the Company applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" (IFRS 1). (See note 25. First-time Adoption of IFRS.)

The Company's consolidated financial statements have been prepared on a historical cost basis, except for derivative instruments, financial assets and liabilities measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVTOCI) and assets and liabilities associated with defined benefit plans. The consolidated financial statements are presented in millions of Japanese yen, the functional currency of the Company. For all the financial information presented in Japanese yen, figures are rounded to the nearest million yen.

Management of the Company has made a number of judgments, estimates and assumptions relating to the application of accounting policies, reporting of revenues and expenses and assets and liabilities in the preparation of these consolidated financial statements. Actual results could differ from those estimates.

Estimates and assumptions are continually evaluated. The effect of a change in accounting estimates, if any, is recognized in the reporting period in which the change was made and in future periods.

The information regarding judgments used in applying accounting policies that could have a material effect on the Company's consolidated financial statements is included in the following notes:

- note 3. *(a) Basis of Consolidation*
- note 3. *(d) Financial Instruments* and note 20. Financial Instruments and Related Disclosures

The information regarding uncertainties arising from assumptions and estimates that could result in material adjustments in the subsequent consolidated financial statements is included in the following notes:

- note 3. *(i) Impairment of Non-financial Assets*
- note 3. *(j) Retirement and Severance Benefits* and note 12. Employee Benefits
- note 3. *(l) Contingencies* and note 24. Commitments and Contingencies
- note 3. *(m) Revenue Recognition Criteria*
- note 3. *(o) Deferred Taxes and Income Taxes* and note 10. Deferred Taxes and Income Taxes

(3) Summary of Significant Accounting Policies

(a) Basis of Consolidation

(i) Consolidated Subsidiaries

Consolidated subsidiaries are entities controlled by the Company. Control is obtained when the Company has risks or rights to variable returns from its involvement with the entity and has the ability to use its power over the entity to affect the variable returns.

The Company consolidates all subsidiaries from the date on which the Company acquires control until the date on which the Company loses control.

Significant intercompany transactions and receivables and payables within the Hitachi Construction Machinery Group (HCM Group) have been eliminated.

Consolidated subsidiaries' financial statements are adjusted, if necessary, when their accounting policies differ from those of the Company. For a consolidated subsidiary whose reporting date is different from that of the Company, financial statements of the consolidated subsidiary based on provisional settlement of accounts made as of the reporting date are used on a consolidated basis.

Changes in ownership interests in subsidiaries without a loss of control are accounted for as equity transactions. Changes in ownership interests in subsidiaries with a loss of control are accounted for by derecognizing assets and liabilities, non-controlling interests, equity and accumulated other comprehensive income (AOCI) attributable to the subsidiaries.

(ii) Associates

Associates are entities over which the Company has the ability to exercise significant influence over their operational and financial policies, but which are not controlled by the Company.

Investments in associates are accounted for using the equity method.

The consolidated financial statements of the Company include changes in profit or loss and other comprehensive income (OCI) of these associates from the date on which the Company obtains significant influence or joint control to the date on which it loses significant influence or joint control.

The financial statements of the associates are adjusted, if necessary, when their accounting policies differ from those of the Company.

(b) Cash Equivalents

Cash equivalents are highly liquid investments with insignificant risk of changes in value, with original maturities of three months or less from the date of acquisition.

(c) Foreign Currency Translation

The consolidated financial statements are presented in Japanese yen, which is the Company's functional currency.

(i) Foreign Currency Transactions

Foreign currency transactions are converted into the functional currency of the Company using the exchange rate prevailing at the transaction date or a rate that approximates such rate. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency using the exchange rate at the end of the reporting period. Foreign exchange gains and losses resulting from the currency conversion and settlement are recognized in profit or loss, except where gains and losses on assets or liabilities are recognized in OCI, foreign exchange effects relating to such assets or liabilities are also recognized in OCI.

(ii) Foreign Operations

Assets and liabilities of foreign entities are translated into Japanese yen using the exchange rate at the end of the reporting period. Revenue and expense items are translated using the rate at the transaction date, or the average exchange rates during the period if there are no significant fluctuations in the exchange rates.

Gains or losses derived from translating foreign entities' financial statements are recognized in OCI. At the time of disposal of foreign entities, cumulative translation differences that were recorded as OCI are reclassified into profit or loss.

(d) Financial Instruments

The HCM Group has early adopted IFRS 9 "Financial Instruments" (issued in November 2009, amended in October 2010) (IFRS 9).

(i) Non-derivative Financial Assets

The HCM Group initially recognizes trade receivables on the date such receivables arise. All other financial assets are initially recognized at the transaction date on which the HCM Group becomes a party to the agreement.

The HCM Group derecognizes financial assets when contractual rights to cash flows from the financial assets expire or when the contractual rights to receive cash flows from the financial assets are transferred in transactions where the risks and economic rewards of owning the financial assets are substantially transferred. In transactions where the risks and economic rewards of owning the financial assets are neither substantially transferred nor retained, the HCM Group continues to recognize the financial assets to the extent of its continuing involvement and only derecognizes such financial assets when its control is transferred.

The classification and measurement model of non-derivative financial assets is summarized as follows:

Financial Assets Measured at Amortized Cost

Financial assets are subsequently measured at amortized cost when they meet the following requirements:

- The financial asset is held within a business model of the HCM Group the objective of which is to hold the asset to collect contractual cash flows.
- The contractual terms of the financial asset provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value (also including direct transaction costs). The carrying amount of financial assets measured at amortized cost is subsequently measured using the effective interest method. Interest accrued on financial assets measured at amortized cost is included in financial income in the consolidated statements of income.

FVTOCI Financial Assets

The HCM Group holds certain equity instruments with the purpose of expanding its revenue base by maintaining and strengthening business relations with the investees. These equity instruments are classified as FVTOCI financial assets by designation. They are initially and subsequently measured at fair value, and the changes in fair value are recognized in OCI. The cumulative amount of OCI is recognized in equity as AOCI. Dividends on equity instruments designated as FVTOCI are recognized in profit or loss, except where they are considered to be a return of the investment.

FVTPL Financial Assets

The HCM Group classifies equity instruments not designated as FVTOCI financial assets and debt instruments not classified as financial assets measured at amortized cost, as FVTPL financial assets. These instruments are subsequently measured at fair value and the changes in fair value are recognized in profit or loss.

Impairment of Financial Assets Measured at Amortized Cost

On a regular basis, but no less frequently than at the end of each quarterly reporting period, the HCM Group evaluates financial assets measured at amortized cost for impairment. Impairment is deemed to have occurred when there is an objective evidence of impairment after initial recognition and when the estimated future cash flows from the financial assets falls below their respective carrying amounts. Objective evidence of impairment includes historical credit loss experience, existence of overdue payments, extended payment terms, negative evaluation by third party credit rating agencies, and deteriorated financial position and operating results, such as a capital deficit.

Impairment losses on debt securities are recognized when the carrying amount of the financial asset exceeds either its estimated future cash flows discounted by the initial effective interest rate or its estimated fair value using the observable market price, and measured as the difference.

Assessing impairment losses on trade receivables requires a considerable amount of judgment, involving historical experience and analysis, including the current creditworthiness of each customer. The HCM Group measures an impairment loss based on the credit loss ratio calculated taking into consideration factors including historical experience or the estimate of collectible amount after assessing multiple potential risks associated with the country in which a debtor conducts business or business environment including special business customs particular to the region.

Impairment losses on debt instruments directly reduce the carrying amount of the assets, while the impairment losses on trade receivables indirectly reduce the carrying amount through the use of an allowance account. For trade receivables, account balances are generally written off against the allowance only after all means of collection have been exhausted and the potential for recovery is considered remote.

When subsequent events or circumstances decrease the amount of the impairment loss recognized, the impairment loss is reversed through profit or loss.

(ii) Non-derivative Financial Liabilities

The HCM Group initially recognizes debt instruments on the date of issuance. All other financial liabilities are initially recognized at the transaction date on which the HCM Group becomes a party to the agreement.

The HCM Group derecognizes financial liabilities when extinguished, when the obligation in the contract is redeemed or the liability is discharged, cancelled or expires.

Non-derivative financial liabilities the HCM Group holds include trade and other payables, bonds and borrowings, and other financial liabilities. They are initially measured at fair value (less direct transaction costs), and bonds and borrowings are subsequently measured at amortized cost using the effective interest method. Interest accrued on these financial liabilities is included in financial expenses in the consolidated statements of income.

(iii) Derivatives and Hedge Accounting

The HCM Group uses derivative instruments including forward exchange contracts and interest rate swaps in order to hedge foreign currency exchange risks and interest rate risks. All derivatives are measured at fair value irrespective of the objective and intent of holding them.

The HCM Group accounts for hedging derivatives as follows:

- Fair value hedge: a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitments and the related derivatives are both recorded in profit or loss if the hedge is considered highly effective.
- Cash flow hedge: a hedge of a forecast transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability. The changes in fair value of the derivatives designated as cash flow hedges are recorded in OCI if the hedge is considered highly effective. This treatment continues until profit or loss is affected by the variability of cash flows or the unrecognized firm commitment of the designated hedged item, at which point changes in fair value of the derivative are recognized in profit or loss.

The HCM Group follows the documentation requirements as prescribed by International Accounting Standards (IAS) 39 "Financial Instruments: Recognition and Measurement," which includes the risk management objective and strategy for undertaking various hedge transactions. In addition, a formal assessment is made at the hedge's inception and subsequently on a periodic basis, as to whether the derivative used in hedging activities is highly effective in offsetting changes in fair values or cash flows the of hedged items. Hedge accounting is discontinued if a hedge becomes ineffective.

(iv) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are offset and reported as net amounts in the consolidated statements of financial position, only when the HCM Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(e) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the specific identification method or by the moving average method for finished goods, semi-finished goods and work in process, and generally by the moving average method for raw materials. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to sell.

(f) Property, Plant and Equipment

The HCM Group uses the cost method to measure property, plant and equipment. They are stated at cost, less accumulated depreciation and accumulated impairment losses. Acquisition cost includes direct costs of acquisition, costs of dismantling, removing and restoration of the assets. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives for major classes of assets:

Buildings and structures	2 to 67 years
Machinery, equipment and vehicles	2 to 30 years
Tools, furniture and fixtures	2 to 30 years

Residual value, estimated useful lives and the method of depreciation are reviewed at the fiscal year end. Changes in residual value, estimated useful lives or depreciation method are accounted for on a prospective basis as a change in accounting estimate.

(g) Goodwill and Other Intangible Assets

(i) Goodwill

After initial recognition, goodwill is not amortized and is stated at cost less any accumulated impairment losses.

(ii) Other Intangible Assets

The HCM Group applies the cost model to other intangible assets and states such assets at cost less accumulated amortization and impairment losses.

Intangible assets are amortized using the straight-line method over the following estimated useful lives for major classes of assets:

Software	2 to 10 years
Others	2 to 20 years

Residual value, estimated useful lives and the method of amortization are reviewed at the fiscal year end. Changes in residual value, estimated useful lives or amortization method are accounted for on a prospective basis as a change in accounting estimates.

(h) Leases

Decision on whether an arrangement is or contains a lease is made based on the substance of the arrangement at inception of the lease. Leases where all risks and rewards of ownership of the asset are substantially transferred to the lessee under the arrangement are classified as finance leases. Leases other than finance leases are classified as operating leases.

(i) Leases as Lessee

Lease assets and liabilities under finance leases are initially recognized at the lower of the present value of minimum lease payments or fair value at inception of the lease. Depreciation of lease assets is recorded using the straight-line method over the shorter of the lease term or estimated useful life, except in the case where it is reasonably certain that the ownership will be transferred by the end of the lease term. Lease payments are allocated at a constant rate to the balance of lease liabilities and accounted for as a reduction in financial expenses and lease liabilities.

Lease payments under operating leases are recognized as expenses using the straight-line method over the lease term.

(ii) Leases as Lessor

For finance leases, net investment in lease at inception of the lease is recorded as trade receivables, and unearned income is allocated over the lease term at a constant rate to the net investment in lease and recognized in the fiscal year to which the income is attributed.

Lease payments receivable under operating leases are recognized equally over the lease term.

(i) Impairment of Non-financial Assets

For each non-financial asset, the HCM Group reviews the carrying amount and tests for impairment when there are events or circumstances indicating an asset's carrying amount may not be recoverable. Irrespective of any indicators of impairment, the HCM Group tests goodwill for impairment at the end of each fiscal year, by estimating the recoverable amount of each cash-generating unit (CGU) to which such assets are allocated.

The HCM Group measures the recoverable amount primarily based on the market price of the asset or using the income approach (present value technique) based on the estimated future cash flows expected to result from the use of the asset and its eventual disposal. If the carrying amount of the asset allocated to the CGU exceeds its recoverable amount, an impairment loss is recognized at the excess amount.

For an asset other than goodwill, its recoverable amount is subsequently estimated for the asset or the CGU when there is a significant change in facts and circumstances and there is an indication that an impairment loss previously recognized on the asset may no longer exist or has decreased. If the estimated recoverable amount exceeds the carrying amount of the CGU, the impairment loss recognized previously is reversed to the extent of the carrying amount that would have been recorded, net of depreciation or amortization, if impairment had not been recognized previously.

(j) Retirement and Severance Benefits

The Company and certain consolidated subsidiaries have defined benefit pension plans and severance lump-sum payment plans to provide retirement and severance benefits to employees. The present value of defined benefit obligations and retirement benefit costs are measured based on the projected unit credit method.

The present value of defined benefit obligations and the fair value of plan assets are remeasured as of the end of the fiscal year. Actuarial differences arising during the year and changes in fair value of plan assets (excluding interest income) are recognized in OCI and are not subsequently reclassified into profit or loss. Any prior service cost, which arises at the time of a plan amendment, is recognized immediately in profit or loss when such an amendment occurs.

The present value of defined benefit obligations less the fair value of plan assets is presented as assets or liabilities.

(k) Provisions

The HCM Group recognizes provisions when it has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of obligation can be reliably estimated.
When the time to settle an obligation is expected to be long, and thus the time value of money is material, the amount of a provision is measured at the present value of the amount of expenditures expected to be required to settle the obligation. The pretax discount rate reflecting the time value of money and risks specific to the obligation is used in the calculation of the present value.

(l) Contingencies

The HCM Group discloses contingent liabilities in note 24. Commitments and Contingencies in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if an obligation does not meet the recognition criteria of provisions prescribed above in (k) Provisions, excluding those where the possibility of an outflow of resources is remote.

(m) Revenue Recognition Criteria

The HCM Group recognizes revenue when it is certain that the economic benefits will flow to the HCM Group and the amount of revenue can be measured reliably on the premise that there is persuasive evidence supporting the transaction.

Revenue from sale of goods, rendering of services and others is measured at fair value of the consideration received or receivable. Fair value is the amount after deduction of discounts, rebates and consumption tax. Revenue recognition criteria by significant category are as follows:

(i) Sale of Goods

Revenue from the sale of goods is recognized when all of the following conditions are met.
- The significant risks and rewards of ownership of the goods have been transferred to the customer
- The HCM Group has neither continuing managerial involvement nor effective control over the goods sold
- The amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the HCM Group

(ii) Rendering of Services

Revenue from the rendering of services is recognized when all of the following conditions are met.
- The stage of completion of the transaction at the end of the reporting period can be measured reliably
- The amount of revenue and the costs incurred for the transaction at the end of the reporting period can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the HCM Group

(n) Government Grants

Government grants are recognized at fair value when the HCM Group obtains reasonable assurance that the conditions attached to the grants will be met and the grants will be received.

Government grants for expenses are recognized in profit or loss on a systematic basis over the periods in which the related costs for which the grants are intended to compensate are recognized. Government grants for assets are recognized by calculating the carrying amount of the assets by deducting the amount of the grants from acquisition cost of the assets.

(o) Deferred Taxes and Income Taxes

Tax expenses are comprised of current tax and deferred tax. These tax expenses are recognized in profit or loss, except for tax expenses related to business combinations and items recognized directly in equity or OCI.

Deferred tax assets and liabilities resulting from temporary differences and others are accounted for based on the asset and liability approach. A deferred tax liability is not recognized for temporary differences arising from goodwill, temporary differences arising from an asset or liability in a transaction other than a business combination, which at the time of transaction affects neither accounting nor taxable income; and future taxable difference arising from investments in consolidated subsidiaries or associates where that the HCM Group is able to control the timing of reversal of the temporary difference while it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss and OCI in the period that includes the enactment date. A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which unused tax losses, unused tax credits and future deductible temporary differences can be utilized.

(p) Earnings per Share

Basic earnings per share (EPS) for net income attributable to owners of the parent is calculated based on the weighted average number of ordinary shares outstanding during the period. Diluted EPS for net income attributable to owners of the parent is calculated based on the sum of weighted average number of ordinary shares outstanding during the period and the conversion of securities with dilutive effects or the number of authorized shares.

(q) Business Combinations

Business combinations are accounted for using the acquisition method. Consideration is measured as the sum of the fair value of the consideration transferred at acquisition date and the non-controlling interests in the acquiree. The Company determines, on a transaction by transaction basis, whether to measure non-controlling interests at fair value or by the appropriate share in the fair value of identifiable net assets of the acquiree. Acquisition related costs are expensed in the period in which the costs are incurred.

On the acquisition date, identifiable assets and liabilities are recognized at fair value at acquisition date, except for the following items:

- Deferred tax assets (or deferred tax liabilities) and liabilities (or assets) related to employee benefits are recognized and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively.
- Assets or disposal HCM Groups classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with this standard.
- Liabilities or equity instruments relating to share-based payment transactions of the acquired entity, or liabilities or equity instruments relating to replacement of share-based payment transactions of the acquired entity with share-based payment transactions of a consolidating company are measured in accordance with IFRS 2 "Share-based Payment."

When the consideration for acquisition exceeds the fair value of identifiable assets and liabilities, the excess is recorded as goodwill in the consolidated statements of financial position. On the other hand, when the consideration for acquisition falls below the fair value, the difference is immediately recorded as revenue in the consolidated statements of income.

(r) New Accounting Standards not yet Adopted by the Company

The following table lists the new accounting standards and interpretations issued or amended prior to the approval date of the consolidated financial statements that are not yet adopted by the HCM Group as of the reporting date. The HCM Group is currently evaluating the potential impact of adopting these new standards and amendments on its financial position and business performance.

IFRSs	Title	Mandatory effective date (Fiscal year beginning on or after)	To be adopted by the HCM Group	Description of new standards and amendments
IFRS 15	Revenue from Contracts with Customers	January 1, 2017	To be determined	Revised accounting standard for revenue recognition and disclosure
IFRS 9	Financial Instruments	January 1, 2018	To be determined	Amendments for hedge accounting (amended in November 2013) Amendments for the classification and measurement of financial instruments, and adoption of expected loss impairment model for financial assets (amended in July 2014)

(s) Subsequent Events

The HCM Group has assessed events that occurred up to June 23, 2015, the issue date of these consolidated financial statements.

(4) Segment Information

(a) Overview of Business Segments

The operating segments of the HCM Group are the components for which separate financial information is available and which is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The reportable segments are determined based on the operating segment.

Since the HCM Group's line of business is manufacturing and sales of construction machinery and there is no operating segment to be segregated, its reportable segment is a single category of the "construction machinery business."

(b) Information on Products and Services

The following tables show revenue from outside customers by product and service for the years ended March 31, 2014 and 2015.

Millions of yen

	2014	2015
Mining machinery	¥126,802	**¥122,127**
Construction machinery and others	676,186	**693,665**
Total	¥802,988	**¥815,792**

(c) Geographic Information

The following table shows revenues attributed to geographic areas based on the location of the customers for the years ended March 31, 2014 and 2015.

Millions of yen

	2014	2015
Japan	¥231,846	**¥221,756**
The Americas	80,418	**112,539**
Europe	71,549	**93,396**
Russia-CIS, Africa, and Middle East	87,382	**92,086**
Asia and Oceania	217,313	**223,128**
China	114,480	**72,887**
Total	¥802,988	**¥815,792**

Revenues from outside customers attributable to any individual country and region other than Japan and China were not material for the years ended March 31, 2014 and 2015.

The following table shows the balances of property, plant and equipment, intangible assets and goodwill for each geographic area as of March 31, 2014 and 2015.

Millions of yen

	March 31, 2014	March 31, 2015
Japan	¥207,623	**¥207,045**
The Americas	3,316	**3,885**
Europe	17,548	**14,051**
Asia	61,051	**58,349**
Other Areas	17,639	**17,558**
Total	¥307,177	**¥300,888**

The balances of property, plant and equipment, intangible assets and goodwill in any individual country and region other than Japan are not material as of March 31, 2014 and 2015.

(d) Significant Customer Information

There is no concentration of revenues to a specific customer for the year ended March 31, 2014 and 2015.

(5) Trade Receivables

The components of trade receivables are as follows:

Millions of yen

	April 1, 2013	March 31, 2014	March 31, 2015
Accounts and notes receivable	¥202,350	¥218,580	**¥213,235**
Finance lease receivables	103,599	90,259	**58,418**
Allowance for doubtful receivables	(7,925)	(9,699)	**(10,091)**
Total	¥298,024	¥299,140	**¥261,562**

The components of trade receivables in the consolidated statements of financial position are as follows:

Millions of yen

	April 1, 2013	March 31, 2014	March 31, 2015
Current assets	¥248,858	¥248,396	**¥231,473**
Non-current assets	49,166	50,744	**30,089**
Total	¥298,024	¥299,140	**¥261,562**

(6) Leases

(a) Lessee

The Company and certain consolidated subsidiaries use leased facilities and equipment, mainly including buildings, machinery and equipment and vehicles, under finance lease or operating lease. No restrictions were imposed by contingent rent payable and the escalation clause and lease agreements.

The following table shows the undiscounted amounts and present value of minimum lease payments under finance leases.

Millions of yen

	April 1, 2013		March 31, 2014		March 31, 2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	¥ 4,049	¥3,434	¥ 5,406	¥ 4,582	**¥ 5,774**	**¥4,957**
After 1 year but not more than 5 years	10,324	8,494	15,451	13,231	**18,204**	**15,986**
More than 5 years	5,129	3,134	6,000	4,205	**3,786**	**2,367**
Minimum lease payments, total	19,502		26,857		**27,764**	
Finance charges	(4,440)		(4,839)		**(4,454)**	
Present value of minimum lease payments, total	¥15,062		¥22,018		**¥23,310**	

Finance lease assets are principally assets acquired by subsidiaries to provide operating leases and included in other property, plant and equipment. The carrying amount of the finance lease assets as of April 1, 2013, March 31, 2014 and March 31, 2015 was ¥11,993 million, ¥15,162 million and ¥15,083 million, respectively.

Future lease payments receivable under non-cancelable subleases as of March 31, 2014 and March 31, 2015 were ¥3,436 million and ¥4,095 million, respectively.

The following table shows the future minimum lease payments under non-cancelable operating leases.

Millions of yen

	April 1, 2013	March 31, 2014	March 31, 2015
Within 1 year	¥1,266	¥1,305	**¥ 860**
After 1 year but not more than 5 years	2,392	2,282	**2,161**
More than 5 years	839	965	**843**

Total minimum operating lease expenses for the years ended March 31, 2014 and 2015 are as follows:

Millions of yen

	2014	2015
Minimum operating lease expenses	¥8,045	**¥9,424**

(b) Lessor

Certain consolidated subsidiaries lease mainly construction machinery under finance and operating lease arrangements principally over the period of three to six years. No restrictions were imposed by contingent rent payable, the escalation clause and lease agreements.

The following table shows the amounts of minimum lease payments receivable and present value of minimum lease payments receivable under finance leases.

Millions of yen

	April 1, 2013		March 31, 2014		March 31, 2015	
	Gross investment in lease	Present value of minimum lease payments receivable	Gross investment in lease	Present value of minimum lease payments receivable	Gross investment in lease	Present value of minimum lease payments receivable
Within 1 year	¥ 71,289	¥66,513	¥55,861	¥50,860	**¥38,982**	**¥36,743**
After 1 year but not more than 5 years	38,610	36,065	41,193	38,276	**22,995**	**21,598**
More than 5 years	1,059	1,021	1,156	1,123	**79**	**77**
Minimum lease payments receivable, total	110,958		98,210		**62,056**	
Unearned income	(7,359)		(7,951)		**(3,638)**	
Present value of minimum lease payments receivable	103,599		90,259		**58,418**	

The amounts of the allowance for uncollectable minimum lease payments receivable as of April 1, 2013 and March 31, 2014 and 2015 are ¥3,580 million, ¥3,640 million and ¥3,143 million, respectively.

The following table shows the future minimum lease payments receivable under non-cancelable operating leases.

Millions of yen

	April 1, 2013	March 31, 2014	March 31, 2015
Within 1 year	¥2,723	¥2,816	**¥2,653**
After 1 year but not more than 5 years	5,405	6,467	**5,970**
More than 5 years	263	346	**190**

(7) Inventories

The components of inventories are as follows:

Millions of yen

	April 1, 2013	March 31, 2014	March 31, 2015
Merchandise and finished goods	¥239,520	¥248,506	**¥245,145**
Work in process	54,066	51,032	**43,554**
Raw materials and supplies	21,137	21,615	**24,789**
Total	¥314,723	¥321,153	**¥313,488**

For the years ended March 31, 2014 and 2015, the amounts of inventories expensed and included as cost of sales were ¥568,715 million and ¥591,961 million, respectively. For the years ended March 31, 2014 and 2015, valuation losses recorded for inventories that were written down to net realizable value were ¥1,996 million and ¥3,892 million, respectively, and reversals of valuation losses were ¥1,251 million and ¥440 million, respectively.

(8) Property, Plant and Equipment

The following tables show the changes in the net carrying amounts, the gross carrying amount and accumulated depreciation and impairment losses of property, plant and equipment.

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Net carrying amount							
April 1, 2013	¥53,344	¥85,551	¥62,219	¥6,449	¥44,759	¥17,118	¥269,440
Separate acquisition	1,012	784	3,547	743	20,151	22,893	49,130
Sales and disposals	(651)	(396)	(666)	(491)	(1,696)	(2)	(3,902)
Depreciation	-	(5,536)	(10,186)	(2,964)	(12,129)	-	(30,815)
Impairment losses	(205)	(231)	-	-	(88)	-	(524)
Acquisitions and divestitures	(481)	(262)	(74)	(3)	-	-	(820)
Currency translation effect	241	2,229	1,412	196	20	284	4,382
Transfer from construction in progress	2,060	12,081	11,765	1,993	407	(28,306)	-
Other	(706)	833	(715)	342	(696)	(436)	(1,378)
March 31, 2014	¥54,614	¥95,053	¥67,302	¥6,265	¥50,728	¥11,551	¥285,513
Separate acquisition	146	928	1,635	1,237	15,286	11,569	32,097
Sales and disposals	(1,639)	(392)	(913)	(101)	(2,337)	(306)	(6,984)
Depreciation	-	(6,141)	(11,176)	(3,130)	(11,084)	-	(31,531)
Impairment losses	-	(7)	-	-	(39)	-	(46)
Acquisitions and divestitures	-	-	-	(4)	(388)	-	(392)
Currency translation effect	(203)	1,786	2,539	232	(21)	1,280	5,613
Transfer from construction in progress	77	7,892	7,254	2,080	20	(17,323)	-
Other	-	(3,151)	(282)	341	174	(26)	(2,944)
March 31, 2015	¥52,995	¥95,968	¥66,359	¥6,920	¥52,339	¥ 6,745	¥281,326

For the years ended March 31, 2014 and 2015, the amount of depreciation recognized is included in Cost of sales and Selling, general and administrative expenses in the consolidated statements of income. Impairment losses are included in other expenses of the consolidated statements of income. The amount related to property, plant and equipment under construction is presented as construction in progress, and other property, plant and equipment are principally operating assets for rental held by certain consolidated subsidiaries such as construction machinery.

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Gross carrying amount							
April 1, 2013	¥54,205	¥150,136	¥171,401	¥47,907	¥107,988	¥17,118	¥548,755
March 31, 2014	55,466	166,337	184,954	51,049	118,595	11,551	587,952
March 31, 2015	53,098	172,296	195,214	53,042	123,488	6,745	603,883
Accumulated depreciation and impairment losses							
April 1, 2013	¥(861)	¥(64,585)	¥(109,182)	¥(41,458)	¥(63,229)	¥ -	¥(279,315)
March 31, 2014	(852)	(71,284)	(117,652)	(44,784)	(67,867)	-	(302,439)
March 31, 2015	(103)	(76,328)	(128,855)	(46,122)	(71,149)	-	(322,557)

(9) Goodwill and Other Intangible Assets

The following tables show the changes in the net carrying amounts, the gross carrying amount and accumulated amortization and impairment losses of goodwill and other intangible assets.

Millions of yen

	Goodwill	Software	Others	Total
Net carrying amount				
April 1, 2013	¥8,675	¥17,790	¥433	¥26,898
Purchases	-	2,516	27	2,543
Amortization	-	(5,653)	(120)	(5,773)
Impairment losses	-	(2,884)	-	(2,884)
Sales and disposals	-	(16)	(15)	(31)
Acquisitions and divestitures	43	(15)	(18)	10
Currency translation effect	(72)	95	15	38
Other	-	958	(95)	863
March 31, 2014	¥8,646	¥12,791	¥227	¥21,664
Purchases	-	3,009	45	3,054
Amortization	-	(5,825)	(60)	(5,885)
Impairment losses	-	(441)	-	(441)
Sales and disposals	-	(8)	(19)	(27)
Acquisitions and divestitures	-	(10)	-	(10)
Currency translation effect	944	1	(45)	900
Other	-	229	78	307
March 31, 2015	¥9,590	¥9,746	¥226	¥19,562

For the years ended March 31, 2014 and 2015, the amount of amortization recognized is included in Cost of sales and Selling, general and administrative expenses in the consolidated statements of income. Impairment losses are included in other expenses in the consolidated statements of income.

Millions of yen

	Goodwill	Software	Others	Total
Gross carrying amount				
April 1, 2013	¥8,675	¥40,443	¥3,433	¥52,551
March 31, 2014	8,646	41,258	3,315	53,219
March 31, 2015	9,590	43,125	2,828	55,543
Accumulated amortization and impairment losses				
April 1, 2013	-	¥(22,653)	¥(3,000)	¥(25,653)
March 31, 2014	-	(28,467)	(3,088)	(31,555)
March 31, 2015	-	(33,379)	(2,602)	(35,981)

Expenditures on research activities aimed at obtaining a new scientific or technical knowledge or understanding are expensed when incurred. Expenditures on development activities for a new or major improvement of production plan or design prior to the beginning of commercial production or use are capitalized as an internally generated intangible asset only when such expenditures attributable to the intangible asset can be reliably measured, it is feasible for the HCM Group to complete the development, and it is highly probable that the HCM Group will obtain the future economic benefit. Otherwise, the expenditures are recognized as an expense when incurred.

Research and development expenditures recognized as an expense for the years ended March 31, 2014 and 2015 were ¥18,809 million and ¥17,843 million, respectively, and they are included in Cost of sales and Selling, general and administrative expenses in the consolidated statements of income.

The HCM Group does not have intangible assets with indefinite useful lives except for goodwill.

The HCM Group tests goodwill acquired through business combination for impairment by comparing the carrying amount and the recoverable amount per CGU.

The recoverable amount per CGU is calculated based on value in use. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate which is derived from the weighted

average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally covers a maximum of five years. Estimated cash flows beyond the period covered by the business plan are calculated using the estimated growth rate not exceeding the long-term average growth rate of the market to which the CGU belongs.

The HCM Group considers it unlikely for the carrying amount of goodwill allocated to each CGU as of March 31, 2015 would exceed the recoverable amount even if the primary assumptions used for the impairment test changed within a reasonable range.

Certain intangible assets for which there is an indication of potential impairment are tested for impairment. As a result of the impairment test, impairment losses of ¥2,884 million and ¥441 million were recognized in other expenses for the years ended March 31, 2014 and 2015, respectively.

The impairment losses were recognized for the years ended March 31, 2014 and 2015, because the software was no longer expected to be used due to a development of the next uniform core system for group companies and it was difficult to divert for other use or sell the software. Due to the difficulty of diverting for other use or selling the software, these losses were recorded with the recoverable value assessed as zero.

(10) Deferred Taxes and Income Taxes

The components of income taxes for the years ended March 31, 2014 and 2015 are as follows:

Millions of yen

	2014	2015
Income taxes		
Current tax expense	¥18,512	**¥20,252**
Deferred tax expense	(236)	**8,445**
Temporary differences originated and reversed	776	**(2,242)**
Changes in write-down of deferred tax assets	(1,012)	**10,687**
Total	¥18,276	**¥28,697**

The Company and its domestic Japanese subsidiaries are subject to a national corporate tax of 25.5%, an inhabitant tax of 20.7% and business tax of 7.55%. Based on these taxes, a combined statutory income tax rate is 35.6%. However, foreign subsidiaries are subject to a corporate tax, etc. in their locations. As for the Company and its domestic Japanese subsidiaries, the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated, resulting in lower corporate tax rates effective from the fiscal year beginning on or after April 1, 2015. As a result, the aggregate statutory income tax rate to calculated deferred tax assets and liabilities will be 33.1% for temporary differences expected to be realized or settled during the year beginning on April 1, 2015 and 32.3% for temporary differences expected to be realized or settled during the year beginning on or after April 1, 2016, compared with the previous rate of 35.6%. The effect of those changes in tax rates is immaterial.

The Company and certain consolidated subsidiaries file consolidated income tax returns.

The components by major items that resulted in the difference between the combined statutory income tax rate and the effective income tax rate are as follows:

	2014	2015
Combined statutory income tax rate	37.8%	**35.6%**
Foreign taxes credit	–6.6	**–5.3**
Income not taxable for tax purpose, such as dividends received	–14.7	**–13.5**
Elimination of dividends received	18.2	**19.3**
Difference in statutory tax rates of foreign subsidiaries	–5.6	**–6.6**
Excess amounts over the tax basis of investments in subsidiaries and investments in associates	0.3	**1.6**
Change in write-down of deferred tax assets	–1.7	**18.1**
Other, net	2.6	**–0.5**
Effective income tax rate	30.3%	**48.7%**

Payment of dividends to owners of the Company has no effect on income taxes.

Changes in deferred tax assets and liabilities are as follows:

Millions of yen

	April 1, 2013	Recognized in profit or loss	Recognized in OCI	Acquisitions, divestitures and others	March 31, 2014
Deferred tax assets					
Allowance for doubtful receivables	¥ 554	¥ 1			¥ 555
Accrued bonuses	2,784	(12)			2,772
Retirement and severance benefits	9,165	(206)	¥ (388)		8,571
Net operating loss carryforwards	2,531	718			3,249
Unrealized profits of inventories	4,545	(305)			4,240
Unrealized gain on fixed assets	226	435			661
Other	10,335	644	(1,464)		9,515
Total deferred tax assets	30,140	1,275	(1,852)	-	29,563
Offset with deferred tax liabilities	(11,067)	(1,240)	(473)	-	(12,780)
Reported deferred tax assets	19,073	35	(2,325)	-	16,783
Deferred tax liabilities					
Deferred gain on sale of properties	(433)	(46)			(479)
Tax purpose reserves regulated by Japanese tax laws	(102)	12			(90)
Investments in subsidiaries and investments in associates	(7,015)	(155)			(7,170)
Investments in securities	(3,163)		(473)		(3,636)
Other	(750)	(850)			(1,600)
Total deferred tax liabilities	(11,463)	(1,039)	(473)	-	(12,975)
Offset with deferred tax assets	11,067	1,240	473	-	12,780
Reported of deferred tax liabilities	(396)	201	-	-	(195)
Net deferred tax assets	18,677	236	(2,325)	-	16,588

Millions of yen

	March 31, 2014	Recognized in profit or loss	Recognized in OCI	Acquisitions, divestitures and others	March 31, 2015
Deferred tax assets					
Allowance for doubtful receivables	¥ 555	¥ 74			¥ 629
Accrued bonuses	2,772	(128)			2,644
Retirement and severance benefits	8,571	(1,808)	¥ (435)		6,328
Net operating loss carryforwards	3,249	(2,451)			798
Unrealized profits of inventories	4,240	(944)			3,296
Unrealized gain on fixed assets	661	278			939
Other	9,515	(2,018)	1,081	¥(91)	8,487
Total deferred tax assets	29,563	(6,997)	646	(91)	23,121
Offset with deferred tax liabilities	(12,780)	7,840	150	-	(4,790)
Reported deferred tax assets	16,783	843	796	(91)	18,331
Deferred tax liabilities					
Deferred gain on sale of properties	(479)	95			(384)
Tax purpose reserves regulated by Japanese tax laws	(90)	30			(60)
Investments in subsidiaries and investments in associates	(7,170)	(945)	(3)		(8,118)
Investments in securities	(3,636)		153		(3,483)
Other	(1,600)	(628)			(2,228)
Total deferred tax liabilities	(12,975)	(1,448)	150	-	(14,273)
Offset with deferred tax assets	12,780	(7,840)	(150)	-	4,790
Reported of deferred tax liabilities	(195)	(9,288)	-	-	(9,483)
Net deferred tax assets	16,588	(8,445)	796	(91)	8,848

The total temporary differences related to excess amounts over the tax basis of investments in subsidiaries and investments in associates for which deferred tax liabilities are not recognized are ¥24,720 million and ¥38,476 million, respectively, as of March 31, 2014 and 2015.

Deferred tax liabilities are not recognized for these differences for which the HCM Group can control timing of the reversal and that will unlikely reverse in the foreseeable future.

In assessing the realizability of deferred tax assets, the HCM Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which these deductible differences become deductible. Although realization is not assured, the HCM Group carries out an assessment of the scheduled reversals of deferred tax liabilities and projected future taxable income, including the execution of certain available tax strategies if needed. Based on these factors, the HCM Group believes it is more likely than not it will realize the benefits of these deductible differences as of March 31, 2015.

Deductible temporary differences, tax loss carryforwards and tax credit carryforwards for unrecognized deferred tax assets are as follows:

Millions of yen

	April 1, 2013	March 31, 2014	March 31, 2015
Deductible temporary differences	¥7,376	¥9,218	**¥19,462**
Tax loss carryforwards			
Expiring within 1 year			
Expiring after 1 year but not more than 5 years		966	**15,166**
Expiring after 5 years	4,343	3,142	**36,046**
Total tax loss carryforwards	¥4,343	¥4,108	**¥51,212**
Tax credit carryforwards			
Expiring within 1 year			**2,339**
Expiring after 1 year but not more than 5 years		677	**1,826**
Total tax credit carryforwards	-	¥677	**¥4,165**

The above tax loss carryforwards for unrecognized deferred tax assets are principally due to net operating loss carryforwards on business taxes.

(11) Trade and Other Payables

The components of trade and other payables are as follows:

Millions of yen

	April 1, 2013	March 31, 2014	March 31, 2015
Accounts and notes payable	¥149,128	¥143,134	**¥139,091**
Finance lease obligations	15,062	22,018	**23,310**
Accounts payable-other	30,430	21,547	**22,839**
Accrued expenses	15,547	31,856	**35,581**
Other	24,285	10,712	**9,615**
Total	¥234,452	¥229,267	**¥230,436**

The components of trade and other payables in the consolidated statements of financial position are as follows:

Millions of yen

	April 1, 2013	March 31, 2014	March 31, 2015
Current liabilities	¥222,650	¥209,936	**¥210,345**
Non-current liabilities	11,802	19,331	**20,091**
Total	¥234,452	¥229,267	**¥230,436**

(12) Employee Benefits

(a) Retirement and Severance Benefits

The Company and certain consolidated subsidiaries have funded pension plans such as defined benefit corporate pension plans and unfunded severance lump-sum payment plans to provide retirement and severance benefits to employees.

The Company and certain consolidated subsidiaries have adopted cash balance plans for certain defined benefit corporate pension plans. Under cash balance plans, a notional account balance, which is equivalent to the funding amount and a resource for the amount of pension, is set per each plan participant. In a notional account balance, principally interest credits based on market interest rate trends and the contribution credits per salary level are funded.

Benefits under these plans are calculated based on the employee's salary and service period.

In addition, the Company and certain consolidated subsidiaries have defined contribution pension plans.

Under the Defined-Benefit Corporate Pension Act, etc., the Company has an obligation to make contributions to the Pension Fund of Hitachi Construction Machinery that provides the pension benefits. The directors of the Fund are responsible for faithfully executing operations in compliance with laws and regulations, and any orders issued by the Minister of Health, Labor and Welfare, and the director-generals of Regional Bureaus of Health and Welfare based on laws and regulations, as well as the rules of the Pension Fund of Hitachi Construction Machinery and the resolution of the Board of Representatives. The Fund prohibits the directors from acts that constitute conflicts of interests in the management and operation of the funds contributed for benefit payments (the contributions). If breached, the board members are jointly and severally held responsible for claim for losses.

The plans are managed by the Pension Fund of Hitachi Construction Machinery, which is legally independent from the Company. The Board of Representatives comprises an equal number of representatives selected by the Company and certain subsidiaries and representatives from the employee side. The proceedings of a Board of Representatives are decided by a majority vote of the members attending, except as otherwise required by laws and regulations, and in case of a tied vote, the chairman has the power to decide.
The actual management of the contributions is conducted by trustees in accordance with rules approved by the Board of Representatives. Instruction of specific securities to invest in, etc. by the representatives is prohibited by law. The Fund takes responsibility in managing the contributions safely and efficiently by establishing the basic management of the contributions and preparing the management guidance in line with the policy submitted to the trustees.

The Company is required to make contributions to the Pension Fund of Hitachi Construction Machinery. The amount of contribution is periodically reviewed to the extent allowed by law. The Company has future obligations to make contributions as defined by the Pension Fund of Hitachi Construction Machinery.

For the severance lump-sum payment plans, the Company has an obligation to pay benefits directly to beneficiaries. There is no legal requirement for the funding.

Changes in the present value of defined benefit obligations and the fair value of plan assets for the year ended March 31, 2014 and 2015 are as follows:

Millions of yen

	2014	2015
Present value of defined benefit obligations at beginning of year	¥68,785	**¥70,857**
Service cost	3,474	**3,570**
Interest cost	1,271	**1,298**
Actuarial gain or (loss)	(572)	**6,355**
Benefits paid	(3,829)	**(3,513)**
Other	1,728	**(315)**
Present value of defined benefit obligations at end of year	¥70,857	**¥78,252**

	2014	2015
Fair value of plan assets at beginning of year	¥54,884	**¥58,804**
Interest income	972	**1,481**
Employers' contributions	3,815	**3,749**
Employees' contributions	62	**72**
Benefits paid	(2,970)	**(2,901)**
Return on plan assets (excluding the amount recognized as interest income)	500	**6,496**
Other	1,541	**(75)**
Fair value of plan assets at end of year	¥58,804	**¥67,626**

The amounts recognized for defined benefit plans in the consolidated statements of financial position are as follows:

Millions of yen

	April 1, 2013	March 31, 2014	**March 31, 2015**
Present value of defined benefit obligations (funded)	¥(59,101)	¥(60,707)	**¥(67,016)**
Fair value of plan assets	54,884	58,804	**67,626**
Funding position	(4,217)	(1,903)	**610**
Present value of defined benefit obligations (unfunded)	(9,684)	(10,150)	**(11,236)**
Net assets (liabilities) in the consolidated statements of financial position	(13,901)	(12,053)	**(10,626)**
Amount in the consolidated statements of financial position			
Liabilities	(13,901)	(12,505)	**(13,446)**
Assets (other non-current assets)	-	452	**2,820**

The components of actuarial gain or loss are as follows:

Millions of yen

	March 31, 2014	**March 31, 2015**
Arising from changes in financial assumptions	¥923	**¥(6,233)**
Arising from changes in demographic assumptions	(238)	**(116)**
Other	(113)	**(6)**

The Company and consolidated subsidiaries remeasure the defined benefit obligations and plan assets at the end of the fiscal year. The main assumptions used in actuarial calculation of defined benefit obligations are as follows:

Percentage

	March 31, 2014	**March 31, 2015**
Discount rate	2.0	**1.6**

If the discount rate rose or decreased by 0.5%, the following effects would be made on the defined benefit obligations:

Millions of yen

	March 31, 2014	**March 31, 2015**
Increase by 0.5%	¥(4,173)	**¥(6,437)**
Decrease by 0.5%	4,595	**5,987**

The sensitivity analysis is based on an assumption that all other variables other than the one analyzed are held constant; in reality, changes in other assumptions may impact the outcome of the analysis.

The weighted average duration (expected average maturity) of defined benefit obligations is as follows:

Years

	March 31, 2014	**March 31, 2015**
Duration	14.5	**14.8**

The investment policy for the plan assets is to maintain current value of assets sufficient for payment of pension benefits and lump-sum benefits. The policy is established to ensure a stable long term rate of return on assets in order to achieve financial soundness.

To this end, the target rate of return is established in consideration of the composition of employees, funding level of assets, risk-taking capability of the Company and certain consolidated subsidiaries, trends of management environment of assets, and other factors. To achieve the target rate of return, the target asset allocation is based on the expected rate of return by each class of asset, the standard deviation of the rate of return and the correlation coefficient among the assets.

If market values fluctuate exceeding certain levels, the Company and certain subsidiaries adjust the investment ratio of plan assets back to the target allocation ratio, while periodically checking actual return on plan assets, trends of management environment of assets, risk-taking capability, and other factors and reviewing the target allocation ratio as needed.

The fair values of plan assets invested are as follows:

Millions of yen

	April 1, 2013		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Government bonds and municipal debt securities	¥ -	¥ 5,060	¥ 5,060
Corporate bonds and other debt securities	-	267	267
Hedge funds	-	1,388	1,388
Securitization products	-	1,828	1,828
Cash and cash equivalents	2	-	2
Commingled funds	-	45,678	45,678
Other	193	468	661
Total	¥195	¥54,689	¥54,884

Millions of yen

	March 31, 2014		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Hedge funds	¥ -	¥ 1,461	¥1,461
Securitization products	-	2,045	2,045
Cash and cash equivalents	1	-	1
Life insurance general accounts	-	5,973	5,973
Commingled funds	-	48,753	48,753
Other	147	424	571
Total	¥148	¥58,656	¥58,804

Millions of yen

	March 31, 2015		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	¥162	¥ -	¥ 162
Hedge funds	-	2,441	2,441
Securitization products	-	2,050	2,050
Cash and cash equivalents	12	-	12
Life insurance general accounts	-	9,296	9,296
Commingled funds	-	52,888	52,888
Other	239	538	777
Total	¥413	¥67,213	¥67,626

Commingled funds represent pooled institutional investments. As of March 31, 2014, commingled funds were allocated to 26% in listed stocks, 47% in government bonds, 16% in corporate bonds and other debt securities and 11% in other assets. As of March 31, 2015, they were allocated to 25% in listed stocks, 48% in government bonds, 15% in corporate bonds and other debt securities, and 12% in other assets.

Funding by the Pension Fund of Hitachi Construction Machinery is conducted by taking into account various factors such as funded status, the limit of tax deductions, and actuarial calculations.

For the purpose of maintaining balanced finance into the future, the bylaws of the Pension Fund of Hitachi Construction Machinery require recalculation of the contribution amounts at the end of fiscal year every five years.

Basic assumptions (expected interest rates, mortality rates, withdrawal rate, etc.) are reviewed to recalculate the appropriate level of contribution.

The amount of contributions expected to be paid by the Company and certain consolidated subsidiaries to the plan assets for the year ending March 31, 2016 is ¥3,811 million.

Contributions made to defined contribution plans and expensed in profit or loss in the years ended March 31, 2014 and 2015 were ¥1,838 million and ¥1,797 million, respectively.

(b) Other Employee Benefit Expenses

The aggregated amounts of employee benefit expenses including salary other than retirement and severance benefits recognized in the consolidated statements of income for the years ended March 31, 2014 and 2015 were ¥121,057 million and ¥128,429 million, respectively.

(13) Equity

(a) Common Stock

Total number of authorized shares of the Company is as follows:

Number of shares

	April 1, 2013	March 31, 2014	**March 31, 2015**
Total number of authorized shares	700,000,000	700,000,000	**700,000,000**

Changes in issued shares outstanding of the Company are as follows:

	Issued shares outstanding (Number of shares)
April 1, 2013	215,115,038
Change during the year	-
March 31, 2014	215,115,038
Change during the year	-
March 31, 2015	215,115,038

Shares issued by the Company are non-par value common stock. The issued shares above include treasury stock and were fully paid up.

The changes in treasury stock for the years ended March 31, 2014 and 2015 are as follows:

	Treasury stock (Number of shares)
April 1, 2013	3,206,607
Acquisition of treasury stock	2,844
Sales of treasury stock	(604,430)
March 31, 2014	2,605,021
Acquisition of treasury stock	1,947
Sales of treasury stock	(69,154)
March 31, 2015	2,537,814

(b) Surplus

(i) Capital Surplus

The Japanese Companies Act (JCA) mandates that at least half of paid-in capital be appropriated as common stock and the rest be appropriated as legal reserve within capital surplus.

(ii) Retained Earnings

The JCA requires that ten percent of retained earnings appropriated for dividends be retained until the total amount of earned reserves and retained earnings reaches a quarter of the nominal value of common stock. Earned reserves may be available for dividends by resolution at the shareholders' meeting.

(14) Other Comprehensive Income (OCI)

Components of OCI for the years ended March 31, 2014 and 2015 are as follows:

Millions of yen

	2014	2015
Foreign currency translation adjustments		
OCI arising during the year	¥14,707	**¥24,614**
Reclassification adjustment	-	**26**
OCI before tax effect	14,707	**24,640**
Tax effects	-	**-**
OCI, net of tax effect	14,707	**24,640**
Remeasurements of defined benefit obligations		
OCI arising during the year	1,072	**141**
Reclassification adjustment	-	**-**
OCI before tax effects	1,072	**141**
Tax effect	(384)	**(510)**
OCI, net of tax effect	688	**(369)**
Net gains and losses from financial assets measured at fair value through OCI		
OCI arising during the year	1,313	**416**
Reclassification adjustment	-	**-**
OCI before tax effect	1,313	**416**
Tax effect	(489)	**187**
OCI, net of tax effect	824	**603**
Cash flow hedges		
OCI arising during the year	(4,969)	**(243)**
Reclassification adjustment	8,021	**435**
OCI before tax effect	3,052	**192**
Tax effect	(1,143)	**(71)**
OCI, net of tax effect	1,909	**121**
Other comprehensive income of equity method associates		
OCI arising during the year	3,352	**1,621**
Reclassification adjustment	149	**41**
OCI before tax effect	3,501	**1,662**
Tax effect	(3)	**83**
OCI, net of tax effect	3,498	**1,745**
Total OCI		
OCI arising during the year	15,475	**26,549**
Reclassification adjustment	8,170	**502**
OCI before tax effect	23,645	**27,051**
Tax effect	(2,019)	**(311)**
OCI, net of tax effect	21,626	**26,740**

(15) Dividends

Dividends paid on common stock for the years ended March 31, 2014 and 2015 are as follows:

Decision	Stock class	Cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
The Board of Directors on May 21, 2013	Common stock	¥4,238	¥20	March 31, 2013	May 31, 2013
The Board of Directors on October 28, 2013	Common stock	5,311	25	September 30, 2013	November 29, 2013
The Board of Directors on May 23, 2014	Common stock	5,313	25	March 31, 2014	May 30, 2014
The Board of Directors on October 28, 2014	Common stock	6,376	30	September 30, 2014	November 28, 2014

Dividends on common stock whose record date falls in the year ended March 31, 2015 and the effective date falls in the next fiscal year are as follows:

Decision	Stock class	Cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
The Board of Directors on May 22, 2015	Common stock	¥6,377	¥30	March 31, 2015	May 29, 2015

(16) Other Income and Expenses

The main components of other income for the years ended March 31, 2014 and 2015 are as follows:

Millions of yen

	2014	2015
Gain on sales of property, plant and equipment	¥2,609	¥ 310
Proceeds from grants	1,003	630
Others	2,863	3,556
Total	¥6,475	¥4,496

(Note) Proceeds from grants
Proceeds from grants include government grants.
Government grants are received by the HCM Group as the HCM Group's certain facilities are located nearby a nuclear power plant and recognized when corresponding expenses are recognized.

The main components of other expenses for the years ended March 31, 2014 and 2015 are as follows:

Millions of yen

	2014	2015
Loss on sales of property, plant and equipment	¥ 63	¥ 530
Loss on disposal of property, plant and equipment	832	868
Impairment losses on property, plant and equipment	3,408	487
Others	3,513	1,399
Total	¥7,816	¥3,284

(17) Financial Income and Financial Expenses

Main components of financial income for the years ended March 31, 2014 and 2015 are as follows:

Millions of yen

	2014	2015
Interest income		
Financial assets measured at amortized cost	¥3,837	¥4,045
Dividend income		
FVTOCI financial assets	357	349
Gain on sales of financial instruments		
Financial assets measured at amortized cost	-	281
Other	32	-
Total	¥4,226	¥4,675

Main components of financial expenses for the years ended March 31, 2014 and 2015 are as follows:

		Millions of yen
	2014	2015
Interest expenses		
Financial liabilities measured at amortized cost	¥9,280	¥7,759
Loss on sales of financial instruments		
Financial liabilities measured at amortized cost	-	565
Foreign exchange loss	9,800	1,964
Other	-	19
Total	¥19,080	¥10,307

(18) Earnings Per Share (EPS) Information

The basis of computations of net income attributable to owners of the parent used to derive basic and diluted EPS for the years ended March 31, 2014 and 2015 are as follows:

		Millions of yen
	2014	2015
Net income attributable to owners of the parent	¥35,747	¥26,023
Adjustments for dilutive effect	-	-
Diluted net income attributable to owners of the parent	35,747	26,023
Other		

		Number of shares
	2014	2015
Weighted average number of shares on which basic EPS is calculated	212,406,699	212,544,707
Effect of dilutive securities	68,839	30,777
Number of shares on which diluted EPS is calculated	212,475,538	212,575,484

	2014	2015
EPS attributable to owners of the parent		
Net income per share (Basic) (yen)	¥168.30	¥122.44
Net income per share (Diluted) (yen)	168.24	122.42

Subscription rights to shares issued based on the resolutions at the annual shareholders' meeting on June 26, 2006 and June 25, 2007 are excluded from the calculation of diluted EPS attributable to owners of the parent since such subscription rights to shares have no dilutive effect. For description of the subscription rights to shares, please refer to "(2) Information on the stock acquisition rights, etc." under "IV. Information on the Company, 1. Information on the Company's Stock, etc. (1) Total number of shares, etc."

(19) Cash and Cash Equivalents

The ending balance of cash and cash equivalents reported in the consolidated statements of financial position is consistent with that reported in the consolidated statements of cash flows.

(20) Financial Instruments and Related Disclosures

(a) Financial Risks

The HCM Group is engaged in business activities world-wide and may be affected by various risks such as interest rate risk, currency exchange risk and credit risk.

(i) Market Risk

Since the HCM Group conducts manufacturing activities world-wide and have customers all over the world, trade receivables and payables denominated in foreign currencies are exposed to currency exchange fluctuation risk. In addition, some long-term debts held by the Company and certain subsidiaries to finance capital investments and working capital are floating-interest bearing, and thus are exposed to interest rate fluctuation risk.

a. Interest Rate Risk

The HCM Group is exposed to interest rate fluctuation risk mainly related to long-term debts. In order to minimize this risk, the HCM Group enters into interest rate swap agreements to manage the fluctuation risk of cash flows. The interest rate swaps entered into are receive-variable, pay-fixed agreements. Under the interest rate swaps, the HCM Group receives

variable interest rate payments on long-term debts and makes fixed interest rate payments, thereby creating fixed interest rate long-term debt.

Interest rate sensitivity analysis
The sensitivity analysis for interest rate shown below indicates the impact on income before income taxes reported in the Company's consolidated statements of income, if interest rates increased by 1% on the financial instruments (floating-interest financial assets and liabilities measured at amortized cost, financial assets and liabilities measured at FVTPL and derivatives) held by the Company as of March 31, 2014 and 2015, while all other variables are held constant.

Millions of yen

	March 31, 2014	March 31, 2015
Impact on income before income taxes	¥(513)	**¥(602)**

b. Currency Exchange Risk

The HCM Group holds assets and liabilities exposed to currency exchange risk. In order to hedge this risk, the management uses forward exchange contracts or cross currency swaps.

Currency exchange rate sensitivity analysis
The sensitivity analysis for major currency exchange rates shown below indicates the impact on income before income taxes reported in the HCM Group's consolidated statements of income, if the Japanese yen depreciated by 1% on the foreign-currency denominated financial instruments held by the Company and its consolidated subsidiaries as of March 31, 2014 and 2015, while all other variables are held constant.

Millions of yen

	Currency	March 31, 2014	March 31, 2015
Impact on income before income taxes	US Dollar	¥(457)	**¥(425)**
	Euro	17	**(7)**

c. Equity Instruments Volatility Risk

The HCM Group holds listed stock of entities with business relationships and is exposed to price volatility risk of equity instruments. In order to manage this risk, market values of such equity instruments and the financial condition of issuing entities are monitored on a regular basis, and holding of such equity instruments is continuously reviewed.

Equity instruments sensitivity analysis
The sensitivity analysis for equity instruments shown below indicates the impact on OCI, net of taxes reported in the consolidated statements of comprehensive income, if the market price of listed stock held by the HCM Group as of March 31, 2014 and 2015 fell by 10%, while all other variables are held constant.

Millions of yen

	March 31, 2014	March 31, 2015
Impact on OCI, net of taxes	¥(632)	**¥(650)**

(ii) Credit Risk

The HCM Group extends credit to customers through various operating transactions and is exposed to credit risk associated with potential losses from credit deterioration or bankruptcy of the customers. In order to manage this risk, the credit management division of the Company and its consolidated subsidiaries regularly monitors the conditions of the customers for trade receivables exposed to credit risk in accordance with credit management rules so that the due dates and balances are assessed for individual customers and the risk of doubtful receivables due to deterioration in the customers' financial conditions are timely identified and mitigated.

Basically, no significant concentration of credit risk is present as the HCM Group has transactions with customers in various geographical areas.

Since held-to-maturity securities are highly rated securities, the HCM Group finds little credit risk.

In addition, the HCM Group enters into derivative transactions only with counterparties who are highly rated financial institutions; therefore, the HCM Group considers the counterparty risk is remote.

With the exception of guarantee obligations, the maximum exposure of the Company and its consolidated subsidiaries to the credit risk equals the financial assets' carrying amount after impairment reported in the consolidated statements of

financial position, if collateral held is not considered. The maximum exposure to the credit risk from guarantee obligations is disclosed in note 24. Commitments and Contingencies.

The following table presents the contractual amount of financial assets by due dates, which are past due but not impaired as of March 31, 2014 and 2015.

Millions of yen

	March 31, 2014			
	Past due within 30 days	Past due between 31 and 90 days	Past due between 91 days and 1 year	Past due over 1 year
Accounts and notes receivable	¥2,711	¥915	¥1,361	¥3,929
Finance lease receivables	68	193	140	-
Other financial assets	90	-	-	-

Millions of yen

	March 31, 2015			
	Past due within 30 days	Past due between 31 and 90 days	Past due between 91 days and 1 year	Past due over 1 year
Accounts and notes receivable	**¥10,292**	**¥2,214**	**¥1,313**	**¥2,615**
Finance lease receivables	-	-	-	-
Other financial assets	-	-	-	-

Financial assets listed above are not held as collateral or other credit enhancement as of March 31, 2014 and 2015.

The changes in the balance of allowance for doubtful receivables are as follows:

Millions of yen

	Accounts and notes receivable	Finance lease receivables	Other financial assets	Total
At April 1, 2013	¥4,345	¥3,580	¥447	¥ 8,372
Impairment loss provision	3,463	522	566	4,551
Amounts written off	(154)	-	(411)	(565)
Reversal of impairment loss	(1,629)	(787)	(387)	(2,803)
Acquisitions and divestitures	-	-	-	-
Other	34	325	-	359
At March 31, 2014	¥6,059	¥3,640	¥215	¥ 9,914
Impairment loss provision	3,790	1,249	570	5,609
Amounts written off	(497)	-	(114)	(611)
Reversal of impairment loss	(2,286)	(823)	(550)	(3,659)
Acquisitions and divestitures	(858)	(1,423)	-	(2,281)
Other	740	500	-	1,240
At March 31, 2015	¥6,948	¥3,143	¥121	¥10,212

As of April 1, 2013 and ,March 31, 2014 and 2015 the amount of trade receivables individually determined to be impaired based on the financial condition and delinquency of relevant customers were ¥6,073 million, ¥6,782 million and ¥6,595 million, respectively, and the same amounts were recognized as allowance for doubtful receivables.

(iii) Liquidity Risk

The treasury department within the HCM Group prepares and updates cash management plans based on the report from each department. The HCM Group maintains the commitment line and credit line to mitigate the liquidity risk while minimizing liquidity in hand to enhance capital efficiency.

The following tables present the maturities of financial liabilities of the HCM Group. Gain or loss from Derivative that are settle on a net basis are presented on a gross basis for each transaction.

Millions of yen

	April 1, 2013				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables (excluding lease payables)	¥219,390	¥219,390	¥219,216	¥ 174	¥ -
Short-term borrowings	160,871	165,375	165,375	-	-
Bonds	49,881	51,091	506	50,585	-
Long-term borrowings	182,231	190,149	35,349	134,236	20,564
Derivative liabilities					
Forward exchange contracts	8,917	8,917	8,917	-	-
Interest rate swaps	847	847	138	709	-

Millions of yen

	March 31, 2014				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables (excluding lease payables)	¥207,249	¥207,249	¥205,354	¥ 1,895	¥ -
Short-term borrowings	138,393	141,881	141,881	-	-
Bonds	49,928	50,073	30,023	20,050	-
Long-term borrowings	182,979	189,821	53,854	115,216	20,751
Derivative liabilities					
Forward exchange contracts	526	526	526	-	-
Interest rate swaps	393	393	118	275	-

Millions of yen

	March 31, 2015				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables (excluding lease payables)	**¥207,126**	**¥207,126**	**¥205,388**	**¥ 1,738**	**¥ -**
Short-term borrowings	**91,105**	**91,939**	**91,939**	**-**	**-**
Bonds	**59,803**	**60,902**	**236**	**50,618**	**10,048**
Long-term borrowings	**136,765**	**142,785**	**47,535**	**90,074**	**5,176**
Derivative liabilities					
Forward exchange contracts	**778**	**778**	**778**	**-**	**-**
Interest rate swaps	**238**	**238**	**8**	**213**	**17**

(Note 1) Information on lease payables is provided in note 6. Leases.
(Note 2) The weighted average interest rate for short-term borrowings is 0.92%, and the weighted average interest rate for long-term borrowings is 1.13%.
(Note 3) Guarantee obligations described in note 24. Commitments and Contingencies are not included as the performance of such guarantee obligations is remote.

The details on each bond issued are provided below.

Issuer	Name of bond	Issued	Millions of yen		Security	Interest rates (%)	Maturity date
			Mar. 31, 2014	Mar. 31, 2015			
The Company	Unsecured debenture #12	2009	¥29,996	¥ -	Unsecured	1.38	June 18, 2014
The Company	Unsecured debenture #14	2012	19,932	19,952	Unsecured	0.46	November 29, 2017
The Company	Unsecured debenture #15	2014	-	29,890	Unsecured	0.319	June 14, 2019
The Company	Unsecured debenture #16	2014	-	9,961	Unsecured	0.487	June 16, 2021

(iv) Capital Management

In pursuing sustainable growth, the HCM Group has made upfront investments including investments in technology development and facilities based on medium- and long-term business strategies. With the principal capital management policy to maintain and strengthen its sound financial structure, the HCM Group closely monitors the balance of interest-bearing liabilities, net of cash and bank deposits and cash pooling deposits.

Net interest-bearing liabilities as of the transition date, March 31, 2014 and 2015 amounted to ¥326,361 million, ¥317,628 million and ¥236,240 million, respectively.

The HCM Group is not subject to any capital requirements except for the general rules such as the Japanese Companies Act.

(b) Fair Value of Financial Instruments

(i) Fair Value Measurements

The following methods and assumptions are used to measure the fair value of financial assets and financial liabilities.

Cash and cash equivalents, trade receivables and trade and other payables

Current portion of cash and cash equivalent, trade receivables and trade and other payable are settled in a short period, and thus, their carrying amount reasonably approximates the fair value. Fair value of non-current items are determined at the present value of expected cash flows from principal and interests discounted by the rate that would be reasonably applied to new transactions.

Other financial assets, other financial liabilities, derivative assets and derivative liabilities

Other financial assets mainly include other receivables and loans receivable, and other financial liabilities mainly include deposits. Current items among other financial assets are settled in a short period, and thus their carrying amount reasonably approximates the fair value. As for investment securities classified as financial assets measured at FVTOCI, fair value of listed stock is determined based on the market price quoted on the exchange. Fair value of non-listed stock is determined based on a valuation technique using observable inputs such as quoted market prices of comparable companies as well as unobservable inputs. Fair value of derivative instruments, which are FVTPL financial assets or financial liabilities, is determined based on the prices obtained from financial institutions.

Bonds and borrowings

Fair value of unsecured debentures and borrowings is determined based on the expected future cash flows from principal and interests discounted at the rate that would be applied to additional borrowings and bonds with same terms and conditions.

(ii) Financial Instruments Measured at Amortized Cost

The carrying amounts and fair values of the financial instruments measured at amortized cost are as follows. Financial assets and financial liabilities whose carrying amount reasonably approximates the fair value are excluded. The fair value hierarchy is described in "(iii) Financial Instruments Measured at Fair Value in the Consolidated Statements of Financial Position" below.

Millions of yen

	April 1, 2013		March 31, 2014		**March 31, 2015**	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Assets						
Trade receivables	¥298,024	¥288,604	¥299,140	¥294,269	**¥261,562**	**¥259,878**
Liabilities						
Trade and other payables	¥(234,452)	¥(234,259)	¥(229,267)	¥(228,805)	**¥(230,436)**	**¥(229,920)**
Bonds and borrowings	(392,983)	(393,403)	(371,300)	(370,403)	**(287,673)**	**(287,228)**

(Notes) 1. Trade receivables: Classified as level 2 as fair value is measured based on observable market data.
2. Trade and other payables: Classified as level 2 as fair value is measured based on observable market data.
3. Bonds and borrowings: Classified as level 2 as fair value is measured based on observable market data.

(iii) Financial Instruments Measured at Fair Value in the Consolidated Statements of Financial Position

Financial instruments measured at fair value on a recurring basis after the initial recognition are classified into three levels of the fair value hierarchy based on the measurement inputs' observability and materiality as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets
Level 2: Valuations measured by direct or indirect observable inputs other than Level 1
Level 3: Valuations measured by significant unobservable inputs

When several inputs are used for a fair value measurement, the level is determined based on the input with the lowest level in the fair value measurement as a whole.

Transfers between levels are deemed at the beginning of each quarter period.

The following tables present the assets and liabilities that are measured at fair value on a recurring basis.

Millions of yen

April 1, 2013	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	¥8,120	¥ -	¥6,726	¥14,846
FVTPL financial assets:				
Other financial assets				
Derivative assets	-	39	-	39
Other financial assets	-	-	696	696
Total financial assets	¥8,120	¥39	¥7,422	¥15,581
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	-	¥(9,764)	-	¥(9,764)
Total financial liabilities	-	¥(9,764)	-	¥(9,764)

Millions of yen

March 31, 2014	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	¥9,791	¥ -	¥6,998	¥16,789
FVTPL financial assets:				
Other financial assets				
Derivative assets	-	127	-	127
Other financial assets	-	-	621	621
Total financial assets	¥9,791	¥127	¥7,619	¥17,537
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	-	¥(919)	-	¥(919)
Total financial liabilities	-	¥(919)	-	¥(919)

Millions of yen

March 31, 2015	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	**¥9,595**	**¥ -**	**¥7,355**	**¥16,950**
FVTPL financial assets:				
Other financial assets				
Derivative assets	**-**	**1,807**	**-**	**1,807**
Other financial assets	**-**	**-**	**630**	**630**
Total financial assets	**¥9,595**	**¥1,807**	**¥7,985**	**¥19,387**
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	**-**	**¥(1,016)**	**-**	**¥(1,016)**
Total financial liabilities	**-**	**¥(1,016)**	**-**	**¥(1,016)**

The following tables present the changes in Level 3 instruments measured on a recurring basis for the years ended March 31, 2014 and 2015.

Millions of yen

	2014	2015
Balance at beginning of the year	¥7,422	**¥7,619**
Total gain/(loss)	254	**431**
Other comprehensive income	254	**431**
Purchased	24	**101**
Sold	(6)	**(162)**
Other	(75)	**(4)**
Balance at end of the year	¥7,619	**¥7,985**

Gain recognized in OCI is attributable to FVTOCI financial assets and included in net gains and losses from financial assets measured at fair value through OCI in the consolidated statements of comprehensive income.

Securities held with the objective of maintaining and strengthening business relations with the issuers are classified as FVTOCI financial assets. The following is a list of principal securities designated as FVTOCI and their fair values.

Millions of yen

Principal FVTOCI financial assets	April 1, 2013	March 31, 2014	March 31, 2015
Kayaba Industry Co., Ltd.	¥4,103	¥3,889	**¥3,925**
ELLE Construction Machinery (China) Co.,LTD.	2,506	2,153	**2,200**
Wakita & Co., LTD.	1,005	1,446	**1,402**
Kanamoto Co., Ltd.	677	1,041	**1,192**
Nippon Chuzo K.K.	1,171	1,710	**1,132**

See note 17. Financial Income and Financial Expenses for dividends received from securities classified as FVTOCI financial assets.

Accumulated gains and losses on valuation of securities classified as FVTOCI financial assets are reclassified into retained earnings when derecognized during the fiscal year. The net gain reclassified, net of taxes, for the years ended March 31, 2015 was \20 million. These securities classified as FVTOCI financial assets were derecognized upon disposal after reviewing particular business relations.
No such gain/(loss) was recognized for the year ended March 31, 2014.

Information on securities classified as FVTOCI financial assets that were derecognized for the years ended March 31, 2014 and 2015 include the following:

Millions of yen

	2014	2015
Fair value at the time of derecognition	-	**¥288**
Accumulated gains at the time of derecognition	-	**32**

(c) Derivatives and Hedging Activities

(i) Fair Value Hedge

Changes in the fair value of recognized assets and liabilities, and of derivatives designated as a fair value hedge of these assets and liabilities are recognized in profit or loss for the period in which the changes occur. Gains and losses recognized on hedged items and hedging instruments are nearly the same. Derivatives designated as a fair value hedge include forward exchange contracts associated with operating transactions and interest rate swaps associated with financing transactions.

(ii) Cash Flow Hedge

Foreign Currency Risk

Changes in the fair value of forward exchange contracts designated as an effective cash flow hedge of forecasted transactions are reported as changes in OCI. AOCI is subsequently reclassified into profit or loss when foreign exchange gains and losses are recognized on hedged assets and liabilities.

Interest Rate Risk

Changes in the fair value of interest rate swaps designated as a hedge of the variability of cash flows associated with long-term debts are reported as changes in OCI. AOCI is subsequently accounted for as financial expenses over the period in which the interest on the debt affects profit or loss.

As of March 31, 2015, the period in which the cash flows from the hedged items are expected to occur and in which they are expected to affect profit or loss is from April 2015 to September 2020.

The fair values of fair value hedges and cash flow hedges are as follows:

Millions of yen

	April 1, 2013		March 31, 2014		**March 31, 2015**	
	Asset	Liability	Asset	Liability	Asset	Liability
Fair value hedge						
Forward exchange contracts	¥39	¥(6,253)	¥127	¥(526)	**¥1,767**	**¥(778)**
Interest rate swaps	-	(112)	-	(36)	**-**	**(16)**
Total	¥39	¥(6,365)	¥127	¥(562)	**¥1,767**	**¥(794)**
Cash flow hedge						
Forward exchange contracts	-	¥(2,664)	-	¥ -	**¥40**	**¥ -**
Interest rate swaps	-	(735)	-	(357)	**-**	**(222)**
Total	-	¥(3,399)	-	¥(357)	**¥40**	**¥(222)**

Profit or loss recognized related to fair value hedges for the years ended March 31, 2014 and 2015 are as follows:

Millions of yen

Derivatives	Recognized in profit or loss	2014	**2015**
Forward exchange contracts	Financial expenses	¥(12,592)	**¥(3,955)**
Interest rate swaps	Financial expenses	(84)	**(94)**
Total		¥(12,676)	**¥(4,049)**

The amounts recognized in the consolidated statements of comprehensive income and the consolidated statements of income for the years ended March 31, 2014 and 2015 related to cash flow hedges are detailed in the following tables: "Gain (loss) recognized in OCI, Effective portion of derivatives designated as hedging instruments," and "Gain (loss) reclassified from OCI into profit or loss, Effective portion of derivatives designated as hedging instruments."

Gain (Loss) Recognized in OCI, Effective Portion of Derivatives Designated as Hedging Instruments

Millions of yen

Derivatives	2014	**2015**
Forward exchange contracts	¥(4,902)	**¥(172)**
Interest rate swaps	(67)	**(71)**
Total	¥(4,969)	**¥(243)**

Gain (Loss) Reclassified from OCI into Profit or Loss, Effective Portion of Derivatives Designated as Hedging Instruments

Millions of yen

Derivatives	2014	**2015**
Forward exchange contracts	¥(7,646)	**¥(132)**
Interest rate swaps	(375)	**(303)**
Total	¥(8,021)	**¥(435)**

(21) Pledged Assets

The Company and certain consolidated subsidiaries pledged a part of their assets as collateral primarily to banks and finance companies as follows:

Millions of yen

	April 1, 2013	March 31, 2014	**March 31, 2015**
Accounts and notes receivable	¥ 4,783	¥ 4,933	**¥ 4,611**
Inventories	7,467	5,274	**5,283**
Land	335	400	**368**
Buildings and structures	3,123	6,596	**4,365**
Other property, plant and equipment	28,804	30,490	**33,051**
Total	¥44,512	¥47,693	**¥47,678**

(22) Principal Consolidated Subsidiaries

The Company's consolidated financial statements for the years ended March 31, 2014 and 2015 include the consolidated subsidiaries listed below.

Name of subsidiary	Business location	Principal business activities	Ownership percentage (%)	
			Mar. 31, 2014	**Mar. 31, 2015**
Hitachi Construction Machinery Tierra Co., Ltd.	Koka, Shiga	Construction Machinery	100.0	**100.0**
Hitachi Construction Machinery Camino Co., Ltd.	Higashine, Yamagata	Construction Machinery	100.0	**100.0**
Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.	Taito-ku, Tokyo	Construction Machinery	50.0	**50.0**
Hitachi Construction Machinery Japan Co., Ltd.	Soka, Saitama	Construction Machinery	100.0	**100.0**
Hitachi Construction Machinery Leasing Co., Ltd.	Soka, Saitama	Construction Machinery	100.0	**100.0**
Hitachi Construction Truck Manufacturing Ltd.	Guelph Ontario, Canada	Construction Machinery	100.0	**100.0**
Hitachi Construction Machinery (Europe) N.V.	Oosterhout, Netherlands	Construction Machinery	98.9	**98.9**
Hitachi Construction Machinery (China) Co., Ltd.	Hefei Anhui, China	Construction Machinery	81.3	**81.3**
Hitachi Construction Machinery Asia and Pacific Pte., Ltd.	Pioneer Walk, Singapore	Construction Machinery	100.0	**100.0**
P.T. Hitachi Construction Machinery Indonesia	Bekasi, Indonesia	Construction Machinery	82.0	**82.0**
Hitachi Construction Machinery (Shanghai) Co., Ltd.	Shanghai, China	Construction Machinery	54.4	**54.4**
Hitachi Construction Machinery Leasing (China) Co., Ltd.	Shanghai, China	Construction Machinery	85.3	**85.3**
Tata Hitachi Construction Machinery Company Private Limited	Bangalore, Karnataka, India	Construction Machinery	60.0	**60.0**
Hitachi Construction Machinery Holding U.S.A. Corporation.	Kernersville, North Carolina, USA	Construction Machinery	100.0	**100.0**
PT Hexindo Adiperkasa Tbk	Jakarta, Indonesia	Construction Machinery	53.7	**53.7**
Hitachi Construction Machinery (Australia) Pty. Ltd	Greystanes, New South Wales, Australia	Construction Machinery	80.0	**80.0**

(23) Related Party Transactions

(a) Compensation for Directors and Executive Officers of the Company

Millions of yen

	2014	**2015**
Monthly salary, year-end allowance and performance-linked compensation	¥740	**¥693**

(b) Transaction between the Company and the Parent of the Company and Other Related Parties

Transaction between the Company and the parent of the Company and other related parties and receivable and payable balances as of March 31, 2014 and 2015 are as follows:

For the year ended March 31, 2014

Millions of yen

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent of the Company	Hitachi, Ltd.	Withdrawals from the cash pooling system	¥18,967	¥34,003
		Interest on deposits	1	
		Interest on borrowings	93	
Other related parties	Hitachi Capital Corporation	Commission on outsourced payment transactions	63,606	20,367

For the year ended March 31, 2015

Millions of yen

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent of the Company	Hitachi, Ltd.	Withdrawals from the cash pooling system	**¥12,440**	**¥21,578**
		Interest on deposits	**4**	
		Interest on borrowings	**19**	
Other related parties	Hitachi Capital Corporation	Commission on outsourced payment transactions	**59,119**	**18,568**

(c) Transaction between Consolidated Subsidiaries of the Company and Other Related Parties

For the year ended March 31, 2014

Millions of yen

Type	Name	Transaction	Transaction amount	Outstanding balance
Other related parties	Hitachi Capital Corporation	Commission on outsourced payment transactions	¥65,258	¥23,909
		Providing collateral	7,874	-

For the year ended March 31, 2015

Millions of yen

Type	Name	Transaction	Transaction amount	Outstanding balance
Other related parties	Hitachi Capital Corporation	Commission on outsourced payment transactions	**¥80,051**	**¥25,008**
		Providing collateral	**8,263**	-

(24) Commitments and Contingencies

Guarantee Obligations

The HCM Group's guarantee obligations and guarantee commitment associated with borrowings from financial institutions as of March 31, 2014 and 2015 are as follows:

Millions of yen

	March 31, 2014	March 31, 2015
Guarantee obligations	¥20,379	**¥18,719**
Guarantee commitment	801	**704**
Total	¥21,180	**¥19,423**

(25) First-time Adoption of IFRS

The Company has adopted IFRS for its consolidated financial statements with the year ended March 31, 2015. The accompanying consolidated financial statements are the Company's first consolidated financial statements prepared in accordance with IFRS. The most recent consolidated financial statements prepared in accordance with Japan GAAP was the consolidated financial statements for the year ended March 31, 2014. The date of transition from Japan GAAP to IFRS is April 1, 2013.

Significant accounting policies described in note 3 are applied in preparing the consolidated financial statements for the years ended March 31, 2015 and 2014 and the consolidated statements of financial position as of April 1, 2013, the date of transition.

(a) IFRS 1 Exemptions

IFRS 1 requires, in principle, the retrospective application of IFRS for companies adopting IFRS for the first time; however, certain exemptions are available. The Company has applied the following exemptions permitted by IFRS 1. The effects of applying IFRS 1 are adjusted in retained earnings or AOCI at the transition date.

- **Business Combinations**

  The Company has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations which occurred prior to the date of transition. Therefore, the carrying amounts of goodwill from acquisitions prior to the date of transition are based on Japan GAAP. Regardless of whether there was any indication that the goodwill may be impaired, the goodwill was tested for impairment at the date of transition to IFRS.

- **Foreign Currency Translation Adjustments**

  Cumulative foreign currency translation adjustments are deemed to be zero as of the transition date.

- **Designation of Financial Instruments Recognized prior to the Transition Date**

  The Company has elected to use facts and circumstances that existed as of the transition date in applying the classification standard under IFRS 9 (issued in November 2009, amended in October 2010).

(b) IFRS 1 Mandatory Exceptions to Retrospective Application of IFRS

IFRS 1 prohibits retrospective application of IFRS with respect to "accounting estimates," "derecognition of financial assets and liabilities" and "hedge accounting." The Company has accordingly applied the relevant IFRSs to these transactions prospectively from the transition date.

(c) Reconciliation

In preparing the consolidated financial statements in accordance with IFRS, the Company made certain adjustments to the reported amounts in the consolidated financial statements prepared in accordance with Japan GAAP.

The effects of transition from Japan GAAP to IFRS on the consolidated financial position, the consolidated results of operations, and cash flows are as follows:

(i) Reconciliation of Equity as of the Transition Date (April 1, 2013)

Millions of yen

Accounts under Japan GAAP	Japan GAAP	Effect of transition	IFRS	Accounts under IFRS
Assets				Assets
Current assets				Current assets
Cash and deposits	¥ 62,640	¥ 3,982	¥ 66,622	Cash and cash equivalents
Notes and accounts receivable	308,206	(59,348)	248,858	Trade receivables
Inventories	314,911	(188)	314,723	Inventories
Deferred tax assets	13,903	(13,903)	-	
Others	42,108	(22,596)	19,512	Other financial assets
	-	18,610	18,610	Other current assets
Allowance for doubtful accounts	(7,949)	7,949	-	
Total current assets	733,819	(65,494)	668,325	Total current assets
Non-current assets				Non-current assets
Property, plant and equipment	271,195	(1,755)	269,440	Property, plant and equipment
Intangible assets	32,661	(14,438)	18,223	Intangible assets
	-	8,675	8,675	Goodwill
Investments securities	27,086	(9,055)	18,031	Investments accounted for using the equity method
	-	49,166	49,166	Trade receivables
Deferred tax assets	5,263	13,810	19,073	Deferred tax asset
	-	28,753	28,753	Other financial assets
Others	30,395	(23,670)	6,725	Other non-current assets
Allowance for doubtful accounts	(518)	518	-	
Total non-current assets	366,082	52,004	418,086	Total non-current assets
Total assets	¥1,099,901	(13,490)	1,086,411	Total assets
Liabilities				Liabilities
Current liabilities				Current liabilities
Notes and accounts payable	¥149,128	¥ 73,522	¥222,650	Trade and other payables
Short-term loans payable	192,821	-	192,821	Bonds and borrowings
Income taxes payable	14,563	(420)	14,143	Income tax payable
Others	90,743	(78,383)	12,360	Other financial liabilities
	-	5,133	5,133	Other current liabilities
Total current liabilities	447,255	(148)	447,107	Total current liabilities
Non-current liabilities				Non-current liabilities
	-	11,802	11,802	Trade and other payables
Bonds payable	50,000	150,162	200,162	Bonds and borrowings
Long-term loans payable	150,281	(150,281)	-	
Lease obligations	9,984	(9,984)	-	
Provision for retirement benefits	8,913	4,988	13,901	Retirement and severance benefits
Others	16,797	(16,401)	396	Deferred tax liability
	-	808	808	Other financial liabilities
	-	5,938	5,938	Other non-current liabilities
Total non-current liabilities	235,975	(2,968)	233,007	Total non-current liabilities
Total liabilities	¥683,230	¥ (3,116)	¥680,114	Total liabilities

Millions of yen

Accounts under Japan GAAP	Japan GAAP	Effect of transition	IFRS	Accounts under IFRS
Net assets				**Equity**
Shareholders' equity				Equity attributable to owners of the parent
Common stock	¥ 81,577	¥ -	¥ 81,577	Common stock
Capital surplus	84,500	(597)	83,903	Capital surplus
Retained earnings	199,779	(13,999)	185,780	Retained earnings
Treasury stock, at cost	(3,982)	-	(3,982)	Treasury stock, at cost
Total shareholders' equity	361,874	(361,874)	-	
AOCI				
Valuation difference on available-for-sale securities	3,056	(3,056)	-	
Deferred gains or losses on hedges	(2,323)	2,323	-	
Foreign currency transactions	(1,444)	1,444	-	
Total AOCI	(711)	4,439	3,728	AOCI
Subscription rights to shares	766	(766)	-	
	-	351,006	351,006	Total equity attributable to owners of the parent
Minority interest	54,742	549	55,291	Non-controlling interests
Total net assets	416,671	(10,374)	406,297	Total equity
Total liabilities and net assets	¥1,099,901	¥(13,490)	¥1,086,411	Total liabilities and equity

(ii) Reconciliation of Equity as of March 31, 2014

Millions of yen

Accounts under Japan GAAP	Japan GAAP	Effect of transition	IFRS	Accounts under IFRS
Assets				Assets
Current assets				Current assets
Cash and deposits	¥ 53,353	¥ 319	¥ 53,672	Cash and cash equivalents
Notes and accounts receivable	302,618	(54,222)	248,396	Trade receivables
Inventories	321,272	(119)	321,153	Inventories
Deferred tax assets	11,186	(11,186)	-	
Others	40,208	(10,796)	29,412	Other financial assets
	-	10,460	10,460	Other current assets
Allowance for doubtful accounts	(9,700)	9,700	-	
Total current assets	718,937	(55,844)	663,093	Total current assets
Non-current assets				Non-current assets
Property, plant and equipment	288,947	(3,434)	285,513	Property, plant and equipment
Intangible assets	22,727	(9,709)	13,018	Intangible assets
	-	8,646	8,646	Goodwill
Investments securities	33,345	(9,976)	23,369	Investments accounted for using the equity method
	-	50,744	50,744	Trade receivables
Deferred tax assets	6,222	10,561	16,783	Deferred tax asset
	-	30,145	30,145	Other financial assets
Net defined benefit asset	452	9,351	9,803	
Others	16,896	(16,896)	-	Other non-current assets
Allowance for doubtful accounts	(335)	335	-	
Total non-current assets	368,254	69,767	438,021	Total non-current assets
Total assets	¥1,087,191	¥13,923	¥1,101,114	Total assets
Liabilities				Liabilities
Current liabilities				Current liabilities
Notes and accounts payable	¥143,134	¥ 66,802	¥209,936	Trade and other payables
Short-term loans payable	211,801	7,957	219,758	Bonds and borrowings
Income taxes payable	8,699	(493)	8,206	Income tax payables
Others	83,326	(71,884)	11,442	Other financial liabilities
	-	5,388	5,388	Other current liabilities
Total current liabilities	446,960	7,770	454,730	Total current liabilities
Non-current liabilities				Non-current liabilities
	-	19,331	19,331	Trade and other payables
Bonds payable	20,000	131,542	151,542	Bonds and borrowings
Long-term loans payable	131,610	(131,610)	-	
Lease obligations	15,942	(15,942)	-	
Provision for retirement benefits	12,563	(58)	12,505	Retirement and severance benefits
Others	12,476	(12,281)	195	Deferred tax liability
	-	280	280	Other financial liabilities
	-	6,578	6,578	Other non-current liabilities
Total non-current liabilities	192,591	(2,160)	190,431	Total non-current liabilities
Total liabilities	¥639,551	¥ 5,610	¥645,161	Total liabilities

Millions of yen

Accounts under Japan GAAP	Japan GAAP	Effect of transition	IFRS	Accounts under IFRS
Net assets				**Equity**
Shareholders' equity				Equity attributable to owners of the parent
Common stock	¥ 81,577	¥ -	¥ 81,577	Common stock
Capital surplus	84,893	(597)	84,296	Capital surplus
Retained earnings	220,122	(8,144)	211,978	Retained earnings
Treasury stock, at cost	(3,237)	-	(3,237)	Treasury stock, at cost
Total shareholders' equity	383,355	(383,355)	-	
AOCI				
Valuation difference on available-for-sale securities	3,746	(3,746)	-	
Deferred gains or losses on hedges	(282)	282	-	
Foreign currency transactions	14,058	(14,058)	-	
Remeasurements of defined benefit plans	(12,496)	12,496	-	
Total AOCI	5,026	17,364	22,390	AOCI
Subscription rights to shares	766	(766)	-	
	-	397,004	397,004	Total equity attributable to owners of the parent
Minority interest	58,493	456	58,949	Non-controlling interests
Total net assets	447,640	8,313	455,953	Total equity
Total liabilities and net assets	¥1,087,191	¥ 13,923	¥1,101,114	Total liabilities and equity

(iii) Reconciliation of Profit or Loss and Comprehensive Income for the Year Ended March 31, 2014
Consolidated Statements of Income

Millions of yen

Accounts under Japan GAAP	Japan GAAP	Effect of transition	IFRS	Accounts under IFRS
Net sales	¥ 802,988	¥ -	¥ 802,988	Revenue
Cost of sales	(573,501)	978	(572,523)	Cost of sales
Gross profit	229,487	978	230,465	Gross profit
Selling, general and administrative expenses	(160,324)	6,063	(154,261)	Selling, general and administrative expenses
	-	6,475	6,475	Other income
	-	(7,816)	(7,816)	Other expenses
Operating income	69,163	5,700	74,863	Operating profit
	-	4,226	4,226	Financial income
	-	(19,080)	(19,080)	Financial expenses
	-	243	243	Share of profits (losses) of investments accounted for using the equity method
Non-operating income	8,812	(8,812)	-	
Non-operating expenses	(24,304)	24,304	-	
Extraordinary income	2,144	(2,144)	-	
Extraordinary losses	(3,040)	3,040	-	
Income before income taxes and minority interests	52,775	7,477	60,252	Income before income taxes
Income taxes	(17,594)	(682)	(18,276)	Income taxes
Income before minority interests	¥ 35,181	¥ 6,795	¥ 41,976	Net income

Millions of yen

Line items under Japan GAAP	Japan GAAP	Effect of transition	IFRS	Line items under IFRS
Income before minority interests	¥35,181	¥6,795	¥41,976	Net income
Other comprehensive income				Other comprehensive income
				Items that cannot be reclassified into net income
Valuation difference on available-for-sale securities	687	137	824	Net gains or losses from financial assets measured at fair value through OCI
Remeasurements of defined benefit plans	1,775	(1,087)	688	Remeasurements of defined benefit obligations
	-	3	3	Other comprehensive income of equity method associates
				Items that can be reclassified into net income
Foreign currency translation adjustments	14,547	160	14,707	Foreign currency translation adjustments
Deferred gains or losses on hedges	1,939	(30)	1,909	Cash flow hedges
Share of OCI of companies accounted for by the equity method	3,478	17	3,495	Other comprehensive income of equity method associates
Total OCI	22,426	(800)	21,626	Other comprehensive income, net of taxes
Comprehensive income	57,607	5,995	63,602	Comprehensive income
Comprehensive income attributable to:				Comprehensive income attributable to:
Shareholders of the Company	48,942	5,467	54,409	Owners of the parents
Minority interests	8,665	528	9,193	Non-controlling interests

Notes on Effects of Transition to IFRS

Reclassifications due to changes in presentation that have no impact on retained earnings

- Under Japan GAAP, the operating assets and liabilities are classified as current when they are expected to be realized/settled in the normal operating cycle. However, under IFRS, assets and liabilities expected to be realized/settled more than one year after the reporting period have been reclassified from current to non-current.
- Under Japan GAAP, receivables are derecognized when liquidized if the criteria for derecognition under Japan GAAP are satisfied. However, under IFRS, liquidized receivables that do not meet the criteria for derecognition of financial assets are recognized as assets, and corresponding liabilities are recorded as borrowings.
- Under Japan GAAP, deferred tax assets and liabilities are presented separately according to their current or non-current attributes in assets and liabilities. However, IFRS requires all deferred tax assets and liabilities to be presented as non-current.
- Investments in associates that were included in investment securities under Japan GAAP are separately presented as investments accounted for using the equity method.
- Interest income, interest income from installment sales, and dividends income, which were presented as non-operating income under Japan GAAP, are presented as financial income under IFRS.
- Interest expenses and foreign exchange losses, which were presented as non-operating expenses under Japan GAAP, are presented as financial expenses under IFRS.
- Gains on sales of property, plant and equipment, which were presented as extraordinary income under Japan GAAP, are included in other income under IFRS.
- Gains on sales of subsidiaries and associates' stocks, which were presented as extraordinary income under Japan GAAP, are included in financial income under IFRS.
- Business structure improvement expenses and impairment losses, which were presented as extraordinary losses under Japan GAAP, are included in other expenses under IFRS.

Reconciliation of retained earnings mainly include the following:

Millions of yen

	April 1, 2013	March 31, 2015
Retained earnings under Japan GAAP	¥199,779	¥220,122
Goodwill (a)	-	5,293
Employee benefit (b)	(19,643)	(19,583)
Income taxes (c)	8,754	7,941
Foreign currency translation adjustments (d)	(3,184)	(3,184)
Other	74	1,389
Retained earnings under IFRS	¥185,780	¥211,978

(a) Goodwill

Goodwill is amortized under Japan GAAP; however, amortization of goodwill is not permitted under IFRS. The effect of the adjustment to goodwill is reflected in the retained earnings as of April 1, 2013 and March 31, 2014.

(b) Employee Benefits

- Under Japan GAAP, actuarial differences and prior service costs that are not recognized as expenses during the year are recognized in AOCI, and subsequently amortized in profit or loss over a certain period of time. Current service cost, interest cost and expected return on plan assets are recognized in profit or loss.
  Under IFRS, any differences arising from remeasurement of defined benefit corporate pension plans and severance payment plans are recognized in OCI. Such remeasurement consists of actuarial differences on defined benefit obligations and profit from plan assets (excluding interest income associated with plan assets). Prior service costs are recognized immediately in profit or loss. Current service costs are recognized as incurred in profit or loss, and the net interest cost, measured by multiplying the net defined benefit obligations or assets by the discount rate, is recognized in profit or loss.
  Defined benefit obligations are recalculated in accordance with IFRS, and any differences arising from changes in the methods attributing defined benefit obligations to periods and calculating net interest expenses are adjusted to retained earnings.
- Paid absences accrued but unused, which are not recognized as liabilities under Japan GAAP, are recognized as liabilities under IFRS. The effect of this difference is adjusted to retained earnings.

(c) Income Taxes

With respect to tax effects of unrealized gains and losses from intercompany sales transactions, deferred tax assets are calculated based on the effective tax rate applicable to the selling company under Japan GAAP, while based on the effective tax rate applicable to the purchasing company under IFRS. In addition, deferred tax assets are recognized for temporary differences arising from reconciliation from Japan GAAP to IFRS, which effects are adjusted to retained earnings.

(d) Foreign Currency Translation Adjustments

Based on the exemption available under IFRS 1 at the first-time adoption of IFRS, the entire foreign currency translation adjustments as of the date of transition was reclassified and adjusted to retained earnings.

Reconciliation of the consolidated statements of cash flows

There is no material difference between the consolidated statements of cash flows presented in accordance with Japan GAAP and IFRS.

(26) Approval of Consolidated Financial Statements

The consolidated financial statements were approved on June 23, 2015 by Yuichi Tsujimoto, President, CEO and Director of the Company.

(2) Other

Quarterly information for the year ended March 31, 2015

Millions of yen

	Three months ended June 30, 2014	Six months ended September 30, 2014	Nine months ended December 31, 2014	Year ended March 31, 2015
Net sales	¥187,699	¥389,142	¥579,773	¥815,792
Income before income taxes and minority interest	11,133	24,919	36,574	51,777
Net income	5,565	11,125	15,305	22,945
Net income per share (yen)	26.19	52.35	72.01	107.95

Yen

	First quarter (April 1 toJune 30, 2014)	Second quarter (July 1 to September 30, 2014)	Third quarter (October 1 to December 31, 2014)	Fourth quarter (January 1 to March 31, 2015)
Net income per share	¥26.19	¥26.16	¥19.67	¥35.94

(Notes) 1. Quarterly information for the year ended March 31, 2015 was prepared based on Japan GAAP.
2. The results of operations for the year ended March 31, 2015 and the fourth quarter ended March 31, 2015 have not been audited or reviewed pursuant to Article 193-2, paragraph 1 of the Financial Instrument and Exchange Act.

Memo

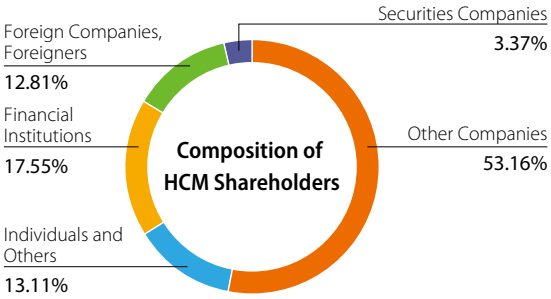
Corporate Information (As of March 31, 2015)

Company Outline

Company Name	Hitachi Construction Machinery Co., Ltd. (Hitachi Kenki Kabushiki Kaisha)
Head Office	5-1, Koraku 2-chome, Bunkyo-ku, Tokyo, 112-8563, Japan
Tel.	+81-3-3830-8065
Fax.	+81-3-3830-8224
Establishment	October 1, 1970
Paid in Capital	¥81,576,592,620
Major Operations	Manufacturing, sales and service of construction machinery, transportation machinery, and other machines and devices
Employees	21,126 (Consolidated) 4,704 (Non-consolidated)
URL	http://www.hitachi-c-m.com/global/

Investor Information

Stock Exchange Listings	Tokyo, Osaka (#6305)
Accounting Auditor	Ernst & Young ShinNihon LLC
Stock Transfer Agent	Tokyo Securities Transfer Agent Co., Ltd.
Number of Shares Authorized	700,000,000
Number of Shares Issued	215,115,038 (treasury share: 2,537,814)
Number of Shareholders	45,327
Annual Meeting	The annual meeting of shareholders is usually held before the end of June in Tokyo.



Major Shareholders (Top 10 Largest Shareholders)

Shareholders	Number of shares held (Thousands)	Ownership ratio (%)
Hitachi, Ltd.	108,058	50.83
The Master Trust Bank of Japan, Ltd. (trust account)	13,613	6.40
Japan Trustee Services Bank, Ltd. (trust account)	8,977	4.22
BNP Paribas Securities Co., Ltd.	3,468	1.63
Trust & Custody Services Bank, Ltd. (securities investment trust account)	2,386	1.12
Hitachi Urban Investment, Ltd.	1,295	0.61
HSBC Asia Equity Finance Japan Equities (trading)	1,286	0.60
State Street Bank West Client – Treaty 505234	1,277	0.60
Japan Trustee Services Bank, Ltd. (trust account 9)	1,262	0.59
Japan Trustee Services Bank, Ltd. (trust account 7)	1,092	0.51

*1 Hitachi Construction Machinery holds 2,537,814 of treasury shares, but these have been excluded from the list of major shareholders above.
*2 Ownership ratio is calculated without the 2,537,814 of treasury shares.

Hitachi Construction Machinery Co., Ltd.

5-1, Koraku 2-chome, Bunkyo-ku, Tokyo,
112-8563, Japan
URL http://www.hitachi-c-m.com/global/

Inquiries
Public Relations Strategy Office
Tel. 81-3-3830-8065
Fax. 81-3-3830-8224
CSR Promotion Department
Tel. 81-3-3830-8033
Fax. 81-3-3830-8224